59th Annual Report 1972

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, May 22, 1973

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-Ninth Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during the calendar year 1972.

Yours respectfully,

Arthur F. Burns, *Chairman*.

Contents

Part 1—Monetary Policy and the U.S. Economy in 1972

Part 2—Records, Operations, and Organization

Part 1

Monetary Policy and the U.S. Economy in 1972

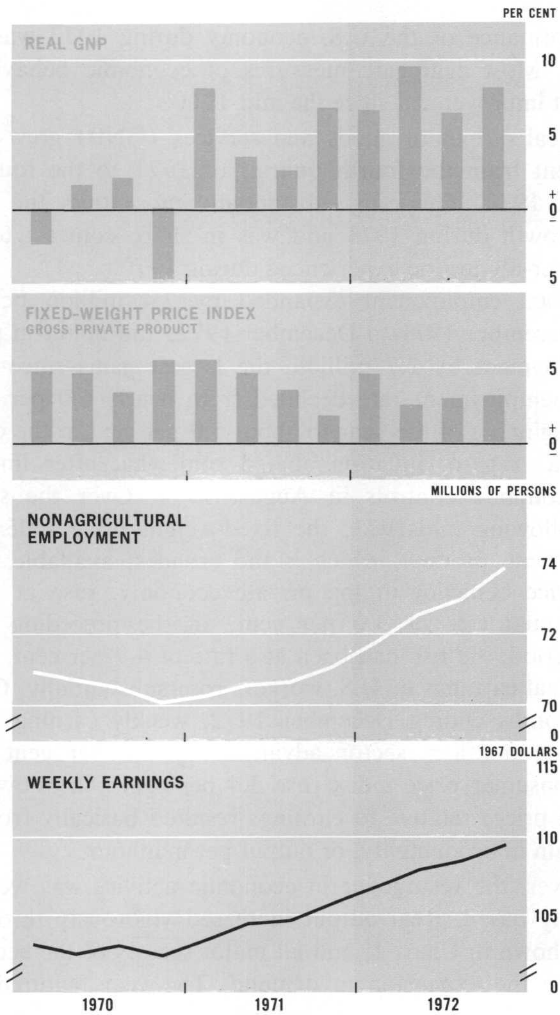
Introduction

The performance of the U.S. economy during 1972 was unusually favorable. Most aggregate measures of economic behavior showed the largest improvement since the mid-1960's.

- Real output of goods and services (GNP) grew by 7.6 per cent from the fourth quarter of 1971 to the fourth quarter of 1972. This was substantially more than the 5 per cent growth during 1971 and was in sharp contrast to the small over-all decline experienced during 1970.
- Total employment expanded by 2.4 million persons from December 1971 to December 1972, and nonfarm payroll employment by 2.7 million, the largest gains since 1966. The unemployment rate declined from nearly 6.0 per cent at the beginning of the year to about 5.0 per cent at the close.
- The rate of inflation abated somewhat after imposition of economic controls in August 1971. Over the six quarters following mid-1971, the fixed-weight price index for gross private product, which is the broadest available measure of price behavior in the private economy, rose at an average annual rate of 3.0 per cent. In the preceding six-quarter period, the rise had been at a rate of 4.7 per cent.
- Real earnings of U.S. workers rose substantially. Over the 12 months ending December 1972, weekly earnings in the private nonfarm sector advanced by 6.2 per cent, while the consumer price index rose 3.4 per cent. The slower advance in prices relative to earnings resulted basically from a strong gain in productivity, or output per manhour.

Moreover, the resurgence in economic activity was well balanced and solidly based. Real output increased vigorously throughout the year, as shown in Chart 1, and all major sectors of the economy contributed to the expansion in demand. The year featured large and steady gains in consumption, a further substantial increase in residential building, and a sizable expansion in business fixed investment. Government purchases rose 7.5 per cent from the fourth quarter of 1971 to the fourth quarter of 1972. State and local government units

1. INDICATORS OF ECONOMIC PERFORMANCE



NOTE.—Gross national product (GNP) and price index: Changes from preceding quarter compounded at annual rates, based on seasonally adjusted data from the Dept. of Commerce, Bureau of Economic Analysis. Change in real GNP is based on 1958 dollars.

Other series: Dept. of Labor, Bureau of Labor Statistics. Employment data are seasonally adjusted. Earnings are averages for private nonfarm production workers.

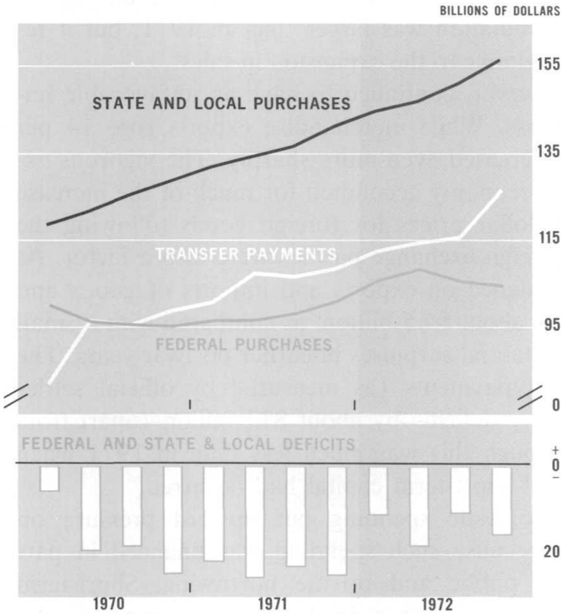
accounted for most of the increase—as shown in Chart 2 on page 6. Business inventory accumulation was larger than in 1971, but it remained quite moderate relative to the expansion in sales.

Net foreign trade, however, continued to have an unfavorable impact on domestic business. While merchandise exports rose 14 per cent in 1972, imports increased even more sharply. The vigorous expansion of the domestic economy accounted for much of the increase in imports, but higher dollar prices for foreign goods following the late 1971 changes in foreign exchange parities were also a factor. As a result, the net U.S. balance on exports and imports of goods and services was in deficit by about $4.5 billion, as compared with a small surplus in 1971 and substantial surpluses in earlier postwar years. The over-all U.S. balance of payments (as measured by official settlements) remained in heavy deficit—by about $11 billion (apart from SDR allocations)—although this was much less than in 1971 when extraordinary outflows of short-term capital had occurred.

The sharp rise in domestic spending put upward pressure on interest rates in 1972 because such spending was financed in part by very high levels of public and private borrowing. Short-term interest rates rose considerably, as reflected by an increase in the rate on 3-month Treasury bills from a low of 3.20 per cent early in the year to an average of more than 5.00 per cent in December. Long-term rates, however, changed relatively little over the course of the year. Yields on new corporate bond issues and on municipal securities declined moderately, on balance, while yields on longer-term Treasury bonds rose under pressure of increased supplies. Mortgage rates were generally stable, as both the volume of savings flowing into mortgage lending institutions and mortgage credit expansion continued at record levels.

Some narrowing in the yield spread between long- and short-term securities is typical during periods of cyclical expansion in business. But the markedly different behavior of rates in these two types of markets in 1972 was attributable in part to special factors. First, Treasury borrowing requirements, while somewhat smaller than in 1971, did put greater pressure on domestic short-term credit markets. Although foreign central banks continued to invest much

2. GOVERNMENT OUTLAYS

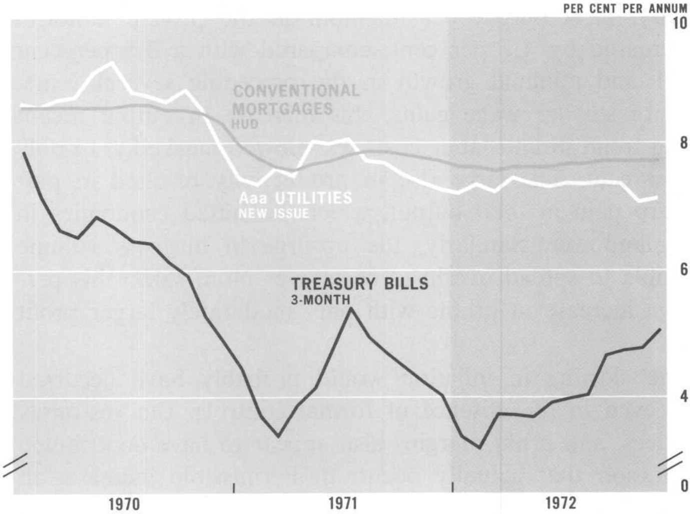


NOTE.—National Income Accounts (NIA) data at seasonally adjusted rates, from Dept. of Commerce, BEA. Transfer payments include net interest payments, subsidies, and net deficits of government enterprises. Combined deficits throughout (Q4 '72 estimated) exclude surpluses of State and local government retirement funds, which amounted to $7.4 billion (annual rate) in the final quarter of 1972.

of the expansion in their dollar reserves in U.S. Treasury debt, the over-all total of such placements was far below that of 1971. Moreover, these banks put three-quarters of the total into higher-yielding coupon issues, in contrast to their 1971 emphasis on Treasury bills. Second, the volume of private long-term security issues declined appreciably, as the flow of internal funds available to corporations from depreciation allowances and retained profits improved sharply. Finally, efforts under Phase II of the economic stabilization program to moderate the increase in wages and prices—along with the slowing in inflation that actually took place—may well have induced some decline in the inflation premium required by investors for long-term commitments of funds.

The behavior of wages and prices during 1972 was significantly more favorable, on balance, than in other recent years. There was a

3. SELECTED INTEREST RATES



For notes, see Chart 16, p. 42.

temporary bulge in the first few months following termination of the wage–price freeze in November 1971, but after that the increase in both wages and prices moderated on balance. For example, the index of average hourly earnings in the private nonfarm economy, adjusted for overtime premiums in manufacturing and for interindustry shifts in employment, rose at an annual rate of 5.9 per cent from January 1972 to January 1973. This compared with a 7.0 per cent rate of increase before the freeze in 1971.

Consumer prices of nonfood commodities rose 2.5 per cent during 1972, compared with 4 per cent in the 12 months before the freeze; increases in prices of services also slowed appreciably. Consumer food prices, however, rose nearly 5 per cent during 1972, reflecting the larger consumer demands associated with rising personal incomes and the shortages in supplies of meats and some other foodstuffs in the market. It should be noted that prices of raw agricultural products were exempted from the controls because of the serious problems inherent in balancing supply and demand at non-market-determined prices in the absence of rationing.

A major factor contributing to moderation in the inflation of nonfood commodity prices during 1972 was the stepped-up growth in productivity. Real output per manhour in the private nonfarm economy increased by 4.7 per cent, compared with a 3.5 per cent gain in 1971 and minimal growth in the preceding several years. Combined with smaller wage gains, this increase in output meant that the rising trend in unit labor costs was slowed markedly, to only about 1.5 per cent. The large rise in productivity resulted in part from the sharp gain in total output, which permitted economies in the use of manpower. Similarly, the upsurge in business volume made it possible to spread overhead costs over more sales; this permitted a large increase in profits with only moderately larger profit margins.

Thus, some slowing in inflation would probably have occurred during 1972 even in the absence of formal controls. But restraints on wages, prices, and profit margins also appear to have contributed to the moderation that actually occurred. Permissible increases in most wages and prices were limited by the program, and in some instances there were enforced rollbacks of increases that had been put into effect. Moreover, the existence of the program tended to discourage inflationary behavior in the policies and plans of business firms and the public generally.

Phase III, announced in January 1973, introduced additional flexibility into the program. But the intent remains one of strong resistance to inflationary behavior, both on a broad scale and in individual cases, and the goal is to reduce further the over-all rate of inflation.

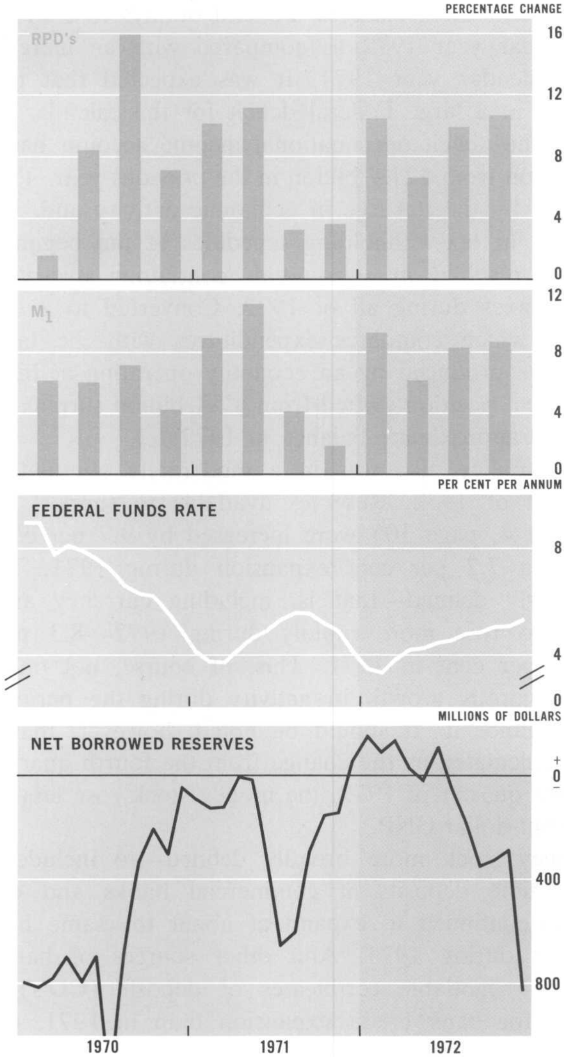
During 1972 both fiscal policy and monetary policy were directed toward encouraging more vigorous expansion in economic activity and achieving a higher level of utilization of the Nation's labor and other economic resources. As a part of the new economic program announced in August 1971, tax policy was liberalized in several respects to stimulate demands by the private sector of the economy and to provide additional spending incentives. The Federal excise tax on automobiles was repealed, the investment tax credit was reinstated at 7 per cent, and certain tax reductions that had been scheduled for later were advanced to January 1, 1972. In addition, programmed Federal expenditures were boosted, largely with respect to transfer payments and grants to State and local governments.

As a result of these changes, Federal outlays rose by $26 billion in the calendar year 1972 as compared with an increase of $16 billion in calendar year 1971. It was expected that the changes would result in a large Federal deficit for the calendar year 1972. But in fact the deficit on a national income account basis declined to $18.5 billion from $21.7 billion in the previous year. Tax revenues were buoyed by the upsurge in economic activity and, in addition, by a change in tax-withholding schedules at the beginning of the year, which resulted in substantial, continuing overpayments on individuals' taxes during all of 1972. Converted to a full-employment basis, which compares expenditures with the tax revenues that would be produced by an economy operating at high employment, the fiscal position shifted from a $4 billion surplus in calendar year 1971 to approximate balance in 1972.

Monetary policy also was in a moderately stimulative posture through most of 1972. Reserves available to support private deposits (Chart 4, page 10) were increased by 9.7 per cent as compared with a 7.2 per cent expansion during 1971. The money stock narrowly defined—that is, including currency and demand deposits—also rose more rapidly during 1972—8.3 per cent as against 6.6 per cent in 1971. This, of course, not only reflected the more vigorous growth in activity during the period but also helped to finance it. It should be noted, however, that when the increase is calculated as the change from the fourth quarter of 1971 to the fourth quarter of 1972, the money stock rose less than either real or current-dollar GNP.

The money stock more broadly defined—to include also consumer-type time deposits at commercial banks and other thrift institutions—continued to expand at about the same high 13 per cent rate as during 1971. And other sources of bank funds—mainly large negotiable certificates of deposit (CD's)—provided more funds for bank credit expansion than in 1971. Credit thus was readily available from banks and other institutional lenders to finance private and public spending. Expansion in credit and money was not large enough to satisfy all demands, however, so short-term interest rates rose considerably over the course of the year whereas

4. SELECTED MONETARY INDICATORS



NOTE.—RPD's and M_1 are quarterly changes at annual rates, based on seasonally adjusted data. RPD's are reserves to support private nonbank deposits. M_1 is 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.

Federal funds rate and net borrowed reserves are monthly averages of daily figures.

interest rates on most long-term securities showed relatively little net change.

Upward pressure on short-term interest rates continued into early 1973, and the Federal Reserve discount rate was raised in two steps of ½ percentage point each to 5½ per cent. The discount rate had not been changed in 1972 as short-term market rates fluctuated around it, first falling below and then in the latter part of the year rising above it.

Economic activity rose especially sharply in the closing months of the year, with production, sales, and employment all expanding vigorously. Real GNP increased at an 8.0 per cent annual rate in the fourth quarter, and the unemployment rate moved significantly lower. By the year-end, the prospects seemed clearly to point in the direction of a continued substantial upward momentum in 1973.

Indications early in 1973 are that business outlays on new plant and equipment will be rising rapidly and that inventory investment may accelerate in line with the rising trend of business sales. Consumer spending, which was exceptionally strong in the fourth quarter of 1972, will very likely be buoyed in coming months by sizable refunds of Federal taxes overwithheld during 1972, as well as by continuing gains in employment and income. State and local government expenditures are to receive substantial financial assistance from the general revenue-sharing payments of the Federal Government, which commenced—with a retroactive disbursement—only very late in 1972.

Only residential construction seems likely to be moving down following 2 years of record-high activity. But both building permits and housing starts, which lead construction outlays, remained extremely strong through the end of 1972, so any appreciable decline in such outlays is likely to be deferred until the latter part of 1973.

The foreign trade outlook also appears more favorable than in 1972. Exports should be stimulated by the high and rising levels of economic activity prevailing in most major countries and by the further improvement in competitive position likely to stem from the 10 per cent devaluation of the dollar announced by the President on February 12, 1973. Domestic production that competes with imports will also be stimulated as a result of the increase in dollar prices of imported goods. Thus, the physical volume of imports will tend to be limited, although—as in early 1972—the total dollar value of imports may be inflated by these higher prices. Past experience, both here and abroad, indicates that progress toward a better balance of payments position will be slow and gradual, but the further change in dollar parity in February should make an additional contribution toward that end.

Summarizing, there is good reason to believe that the U.S. economy will continue to expand at a relatively rapid rate in the period ahead. And as the economy approaches maximum levels of practicable resource utilization, the nature of the demand–management problem facing governmental policy will be in process of change. Rather than the stimulus that was needed to encourage rapid economic recovery, the need increasingly may be to restrain the expansion in economic activity to insure that future growth will moderate to a rate consistent with the Nation's longer-run potential.

The administration's new budget plans for the remainder of the fiscal year 1973 and for fiscal 1974 recognize this need. If the spending totals proposed are not exceeded, the rise in Federal outlays during calendar year 1973 will be substantially smaller than during calendar year 1972. Tax refunds will keep the deficit large in the first half of 1973, but thereafter revenues will be expanding in line with growth in the economy. Under these conditions, the slower rise planned in Federal expenditures would imply appreciably less fiscal stimulus by the second half of 1973 and on into 1974.

Monetary policy too must be responsive to the financial requirements imposed by the needed moderation in economic growth to a more sustainable, noninflationary pace. Although expansion in the monetary aggregates continued comparatively rapid in the latter part of 1972 as demands for funds intensified, reserves to support this expansion were being provided more reluctantly, and efforts by banks to adjust their positions by other means put upward pressure on short-term interest rates. Less of the recent rise in bank reserves has stemmed from open market operations, and more from further increases in the average level of temporary bank accommodation at Federal Reserve Bank discount windows.

If the past is any guide, the firming in monetary conditions over recent months should soon result in moderation in the rate of monetary expansion. Developing monetary restraint affects monetary growth and economic activity with some lag, since it takes time for borrowers, lenders, and investors to adjust to changed financial conditions. Thus, the cumulative effects of monetary actions in 1972—particularly those initiated in the latter part of the year—will be working for some time toward restraint of monetary expansion and of aggregate demand in the future.

In any event, prospects at the beginning of the year make it unlikely that the needs of the economy in 1973 will or should call for the degree of monetary stimulus provided in 1972. Monetary policy is a flexible instrument for influencing the economic environment, however, and it will be in a position to respond to changing needs as economic developments unfold during the year.

Demands for Goods and Services

The stepped-up pace of economic expansion that became evident in the fall of 1971 strengthened measurably in 1972, and at the year-end growth was continuing at a very rapid pace. The new economic policy that had been initiated in August 1971, including a freeze on prices and wages followed by Phase II controls, contributed to the faster economic expansion as well as to the easing of inflationary pressures.

As employment and incomes rose strongly and inflationary expectations abated, consumers became more optimistic and they increased their spending appreciably. Demands for housing continued strong, and residential construction activity surpassed to a substantial extent the very high levels reached in 1971.

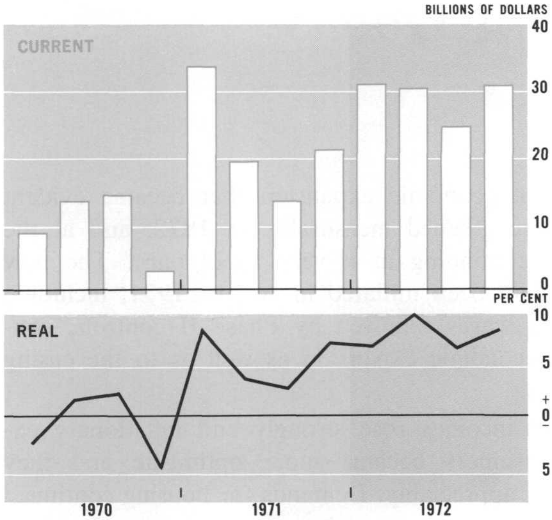
Business attitudes improved with the growth in sales and the better prospects for profits. New orders increased, and business commitments and outlays for fixed investment began to add considerably to the vigor of the expansion. As the year progressed, business also stepped up the pace of inventory investment.

Governments, too, contributed to the large advance in over-all spending in 1972. In contrast to these generally expansive demands, net exports shifted from a small surplus in 1971 to a sizable deficit in 1972, as the increase in imports far exceeded that in exports.

REAL OUTPUT

Measured in current prices, GNP increased rapidly in 1972—by almost 10 per cent for the year as a whole. At the same time, the rise in the GNP implicit price deflator slowed to 3 per cent, as compared with a 5 per cent average increase for the two preceding years. As a result, the increase in real GNP for the year as a whole amounted to 6.4 per cent—more than twice the 1971 rise and the largest since 1966. Growth in real GNP was rapid in every quarter of 1972; in the fourth quarter it was at an

5. CHANGES IN GNP



NOTE.—Based on quarterly data (constant-dollar series, 1958 dollars) at seasonally adjusted annual rates, from Dept. of Commerce, BEA. Changes are from preceding quarter.

annual rate of 8.0 per cent, about double the economy's long-run potential rate of expansion.

The surge of aggregate demands in 1972 resulted in sharp increases in industrial output and nonfarm employment and in a significant reduction in unemployment. Over the 12 months ending in December industrial production increased more than 10 per cent; consumer goods, business equipment, and materials all made appreciable contributions to this expansion. Nonfarm payroll employment was 2.7 million persons, or almost 4 per cent, above a year earlier. The unemployment rate declined during the second half of the year to 5.1 per cent in December; a year earlier the rate had been 6 per cent.

CONSUMER INCOME AND OUTLAYS

Personal income increased somewhat more sharply in 1972 than in 1971—8.5 per cent for the year as a whole compared with less than 7 per cent in 1971. Although the rate of growth in average hourly earnings slowed, employment was up sharply and

Table 1: GROSS NATIONAL PRODUCT

Type of measure	1970	1971	1972	1972[1] I	II	III	IV
	In billions of dollars						
Current dollars	976	1,050	1,152	1,109	1,139	1,164	1,195
1958 dollars	722	742	790	767	784	796	812
	Percentage change from preceding period (at annual rates)						
Current dollars	5.0	7.6	9.7	12.0	11.4	8.9	11.0
1958 dollars	−.5	2.7	6.4	6.5	9.4	6.3	8.0
Implicit deflator (1958=100)	5.5	4.7	3.0	5.1	1.8	2.4	2.8

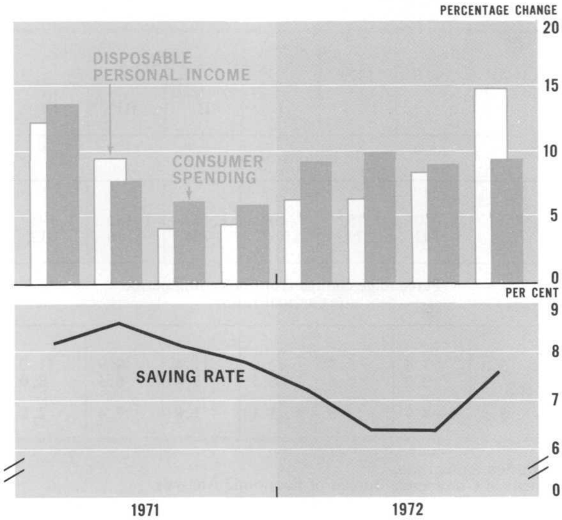
[1] Quarterly data are seasonally adjusted annual rates.
NOTE.—Basic data from Department of Commerce, Bureau of Economic Analysis.

total wages and salaries increased by 9.5 per cent, compared with less than 6 per cent the preceding year. Transfer payments—for example, social security benefits and unemployment insurance—also increased substantially, but less than they had in 1971. However, the growth in disposable personal income was somewhat less than in 1971, because the gain in such income was held down by a change in Federal income-tax-withholding schedules, which resulted in sizable overwithholdings.

Nevertheless, consumers stepped up their spending and borrowing briskly, responding to strong gains in employment, increased overtime, and strengthened confidence as evidenced by surveys relating to consumer attitudes about economic prospects and financial positions. The rate of personal saving for the year as a whole declined to about 7 per cent of disposable income, from more than 8 per cent in 1971.

In current dollars, consumer spending was about 8.5 per cent higher than in 1971. Purchases of new autos and household durable goods were especially strong, but spending for nondurable goods and services also rose considerably. Increases in the physical volume of purchases were sizable for all three major categories. In real

6. CONSUMER INCOME, OUTLAYS, AND SAVING



NOTE.—Income and spending are changes from preceding quarter, based on quarterly data at seasonally adjusted annual rates, from Dept. of Commerce, BEA. Saving rate is personal saving as percentage of disposable personal income.

terms, total consumer spending was up 6 per cent, well above the 4 per cent increase recorded for 1971.

Sales of new automobiles—both domestic-type and imports—reached a new high of 10.8 million units for the year, up from 10.2 million units in 1971. In the fourth quarter total auto sales reached an annual rate of 11.7 million units, the highest of the year. The sharp increase in purchases of household durable goods was associated not only with rising incomes but also with the record number of new housing units being completed and occupied. This large increase in consumer spending for durable goods was facilitated by a record increase in the use of instalment credit.

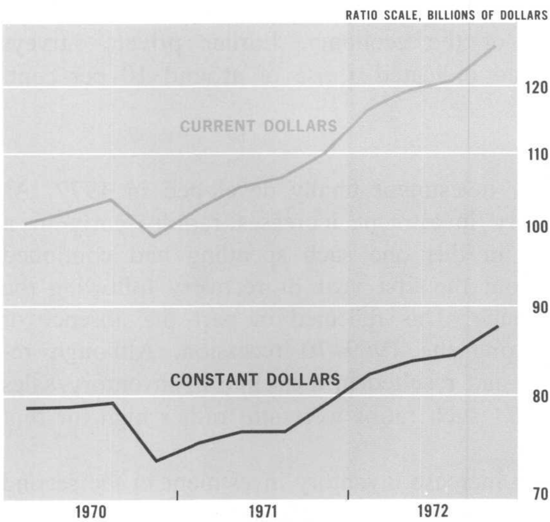
Consumer demands were still exerting a stimulating influence on the economy at the end of 1972. Incomes were advancing with exceptional rapidity as a result of continued strong gains in output and employment and of a 20 per cent boost in social security benefits, with initial payments on October 1. It is expected that the unusually large amount of tax refunds anticipated for the first half of 1973 because of overwithholding during 1972 will add to both disposable incomes and spending.

BUSINESS FIXED INVESTMENT

An important factor in the expansive thrust of the economy in 1972 was a marked increase in business spending for new fixed capital. Outlays for new machinery and buildings were 14 per cent higher than in 1971; measured in real terms this represented an increasee of 10 per cent.

The rise in spending for business fixed capital reflected a number of factors: the strong expansion in industrial production and an associated rise in the rate of capacity utilization; the greatly improved performance of aggregate profits; and the stimulative effects of a further acceleration in depreciation schedules and the late-1971 restoration of the investment tax credit, which applies to purchases of new equipment. For the year as a whole purchases of machinery and equipment in current dollars were about 16 per cent above the 1971 volume. Because the increase in prices of such goods in

7. BUSINESS FIXED INVESTMENT



NOTE.—Quarterly data, at seasonally adjusted annual rates, from Dept. of Commerce, BEA. Constant-dollar series is in terms of 1958 dollars.

1972 was quite moderate, most of this large rise in outlays represented physical volume. In the equipment category, truck sales were especially strong; the number of units sold was up 25 per cent from 1971. The increase in business outlays for new construction was more moderate, with little change in real terms.

Most of the increase in fixed investment outlays in 1972 occurred outside of the manufacturing sector. Expenditures by public utilities rose strongly, reflecting continued sizable gains in demands for energy as well as more rigorous standards for pollution controls. Communications and commercial firms also increased their investment sharply. The increase in spending for new plant and equipment by manufacturing firms in 1972 was much more moderate; however, the rise of 4 per cent contrasted with a decline of about 6 per cent in 1971.

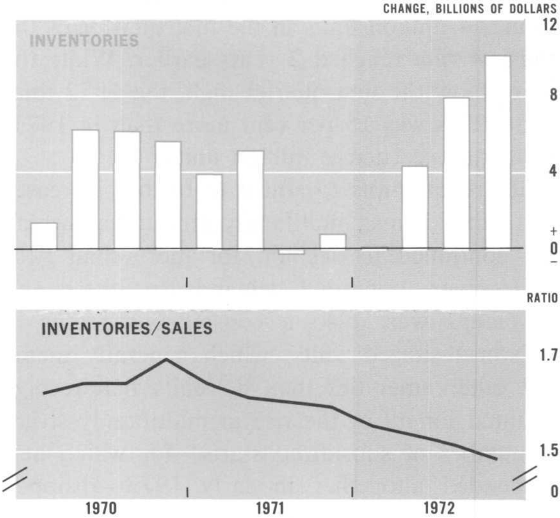
Late in 1972 businessmen's intentions to spend for plant and equipment in the year ahead appeared to be in the process of upward adjustment, reflecting—among other factors—rising orders for hard goods and a growing backlog of such orders. The survey taken by the Department of Commerce in December 1972 showed plans for a 13 per cent rise in spending for new plant and equipment in 1973, with larger increases being planned by manufacturers than by other sectors of the economy. Earlier private surveys taken in the autumn had indicated a rise of around 10 per cent.

INVENTORIES

An upturn in inventory investment finally developed in 1972. As a general rule, inventory investment increases rapidly early in a cyclical expansion, but in this one such spending had continued quite moderate throughout the first year of recovery following the fourth-quarter 1970 trough. This reflected in part the absence of any net liquidation during the 1969–70 recession. Although recovery in sales in 1971 had resulted in a decline in inventory/sales ratios, at the end of 1971 such ratios were still rather high for that stage of the cycle.

Businessmen began to increase inventory investment in the second quarter of 1972 in response to the continued rapid increases in sales and production, and the rate of such accumulation accelerated as the year progressed. Toward the year-end, accumulation reached

8. BUSINESS INVENTORIES AND SALES



NOTE.—Dept. of Commerce data: Inventory change (NIA), quarterly data at seasonally adjusted annual rates, from BEA. Inventories/sales ratio, based on book value and sales data seasonally adjusted, from Bureau of the Census; book value, end of quarter; sales, quarterly average.

an annual rate of $10 billion, as measured in the NIA accounts. With sales gains outstripping inventory increases, the ratios of inventory book values to sales in a number of areas were reduced further, and by the end of the year they were approaching historically low levels. Further growth in inventory accumulation is suggested by these low ratios, as well as by rising backlogs of unfilled orders, by more numerous reports of delays in deliveries, and by continuing rapid increases in sales.

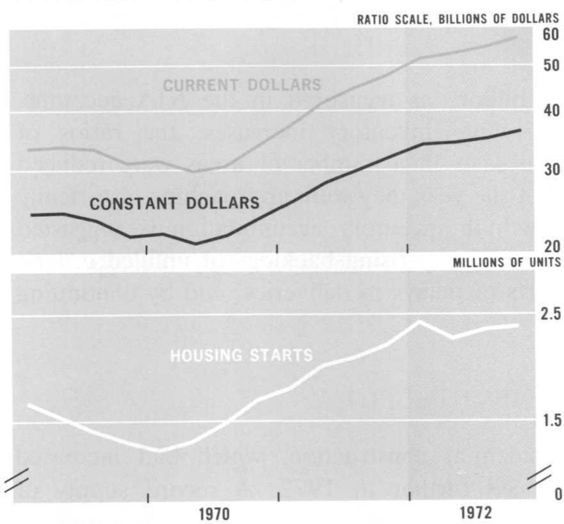
RESIDENTIAL CONSTRUCTION

Outlays for private residential construction, which had increased sharply in 1971, advanced further in 1972. A record supply of mortgage credit, available at relatively stable interest rates and on liberal terms, supported a strong expansion in demands for both new and existing dwelling units. For the year, residential outlays rose 25 per cent in current dollars and about 20 per cent in real terms.

Private housing starts accelerated to a peak seasonally adjusted annual rate of more than 2.4 million units in the first quarter of the year, almost double the low rate reached 2 years earlier. While the rate fluctuated thereafter below the first-quarter high, the 1972 total came to 2.4 million units. This was 15 per cent more than in 1971, the first year in which starts exceeded 2 million units.

Reflecting in part builders' attempts to adjust to further increases in the cost of land and other items, multifamily structures—which include condominiums—continued to account for more than two-fifths of total starts. However, upgraded demands for these and for other types of dwellings were also a conspicuous factor in the over-all advance. Nonsubsidized units, which generally incorporate more space and other amenities than do units that receive Federal subsidies, accounted for all of the rise in multifamily structures. In contrast, the number of subsidized starts—for which new commitments were suspended altogether in early 1973—dropped

9. RESIDENTIAL CONSTRUCTION



NOTE.—Dept. of Commerce data: Expenditures, quarterly data at seasonally adjusted annual rates, from BEA. Constant-dollar series is in terms of 1958 dollars. Housing starts, monthly data at seasonally adjusted annual rates, from Bureau of the Census.

appreciably in 1972 from the highs reached in 1970 and 1971. Shipments of new mobile homes, which are not included in housing starts or in residential construction outlays, also achieved a new high in 1972. Such shipments totaled about 575,000 units, an increase of 15 per cent from 1971.

At the year-end demands for housing remained strong, vacancy rates were relatively low, and mortgage funds were still in ample supply at rates little changed from a year earlier. However, it appeared unlikely that the number of starts in 1973 would match the 1972 total in view of (1) the extent to which the backlog of demand had been satisfied by sustained high levels of production (2) the large and growing number of completions of earlier starts in prospect, and (3) other factors.

GOVERNMENT OUTLAYS

Purchases of goods and services by the Federal Government rose strongly in the first half of 1972 as the result of a Government-wide pay increase in January and the rebuilding of defense inventories depleted by activities in Vietnam. In the second half of the year, however, defense purchases dropped sharply and nondefense buying slowed; as a result, Federal purchases declined. For the calendar year as a whole, Federal purchases rose about 8.5 per cent—virtually all because of increased pay and higher prices.

State and local government purchases rose by about 10 per cent in 1972—the same increase as in each of the past 3 years. Employee compensation, as usual, accounted for much of the gain. Employment rose about 4.5 per cent; about one-third of this increase represented the number of jobs added under provisions of the Public Employment Act—a program funded in large part by the Federal Government. As in other recent years, there was little growth in purchases of structures in 1972, in large part because the demand for new educational structures has lessened.

During 1972 there was a dramatic improvement in the over-all fiscal position of State and local governments. Although expenditures continued to rise rapidly, revenues rose even faster, especially in the fourth quarter when the first payments under the Federal revenue-sharing program were received. As a result, State and local governments achieved a surplus of about $12 billion (NIA basis) for the calendar year compared with a surplus of less than $5 billion in 1971 and with deficits in 1967 and 1968. However, there remained wide differences in the fiscal position of individual governmental units.

Table 2: CHANGES IN MAJOR COMPONENTS OF GROSS NATIONAL PRODUCT

In billions of dollars

Item	1970	1971	1972	1972[1]			
				I	II	III	IV
GNP	**46.1**	**74.0**	**101.4**	**31.0**	**30.3**	**24.6**	**30.9**
Personal consumption expenditures	**37.3**	**48.1**	**56.1**	**15.6**	**17.3**	**15.2**	**17.1**
Durable goods	−.3	13.0	12.6	4.9	2.9	4.7	2.2
Nondurable goods	18.5	13.7	21.4	4.9	8.9	4.8	8.4
Services	19.1	21.5	22.1	5.8	5.7	5.6	6.5
Saving rate (level, in per cent)	*8.0*	*8.2*	*6.9*	*7.2*	*6.4*	*6.4*	*7.6*
Fixed investment	**1.1**	**16.1**	**26.2**	**10.5**	**4.3**	**3.2**	**7.9**
Residential structures	−1.4	11.4	11.4	4.3	1.2	1.6	2.6
Nonresidential	2.4	4.9	14.8	6.3	3.1	1.5	5.4
Inventory change	**−2.9**	**−1.3**	**2.3**	**−1.3**	**4.6**	**3.0**	**2.3**
Net exports of goods and services	**1.7**	**−2.9**	**−4.9**	**−2.5**	**−.6**	**1.8**	**−.1**
Exports	7.4	3.2	7.6	7.7	−.7	4.4	5.2
Imports	5.7	6.1	12.5	10.2	−.1	2.6	5.3
Govt. purchases of goods and services	**9.0**	**13.8**	**21.8**	**8.5**	**4.7**	**1.5**	**3.7**
Federal	−2.3	1.3	8.0	5.0	2.4	−2.7	−1.4
Defense	−3.3	−3.7	4.5	4.8	1.9	−3.5	−1.9
Other	1.1	4.8	3.6	.2	.7	.6	.6
State and local	11.3	12.5	13.8	3.5	2.3	4.2	5.0

[1] Derived from quarterly totals at seasonally adjusted annual rates.
NOTE.—Basic data from Dept. of Commerce, BEA.

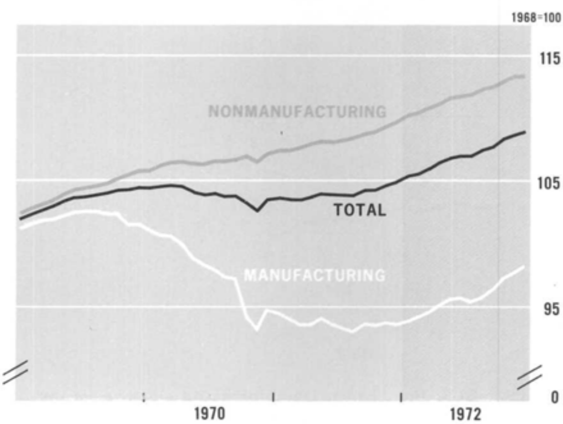
Manpower

Labor markets tightened significantly in 1972 in response to the sharp rise in real output. Gains in employment were large and persistent all year, but it was not until near midyear that the jobless rate, which had held close to 6 per cent for a year and a half, began to decline.

Growth in employment had begun to accelerate in late 1971, and it continued at a rapid pace through most of 1972. By December nonfarm payroll employment had risen by 2.7 million persons from a year earlier. Gains in manufacturing were especially strong during most of 1972, as increased spending for investment and strong demands for autos and other consumer durable goods stimulated rapid growth in employment in the major metal-producing and metal-using industries. By December total manufacturing employment, at 19.4 million persons, had risen by some 900,000 over the year, and the average factory workweek had increased appreciably. But manufacturing employment was still 900,000 below the peak level of 1969, when defense production was supporting a high level of factory output.

Employment growth also accelerated in nonindustrial activities

10. NONFARM PAYROLL EMPLOYMENT

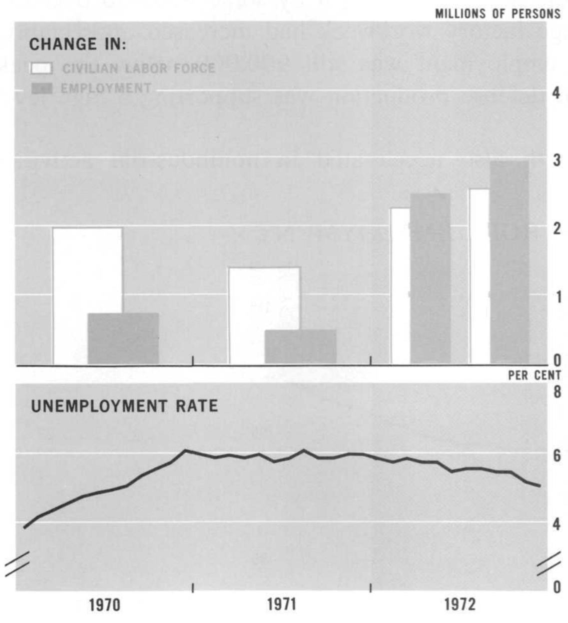


NOTE.—Based on monthly data, seasonally adjusted, from Dept. of Labor, BLS.

in 1972. In services, finance, and trade, the total number employed rose by 1.2 million, about one-third more than during 1971. Federal civilian employment was cut slightly, but State and local governments increased their payrolls by 475,000 over the year ending in December—including about 150,000 jobs provided by the Federally financed public employment program.

Little progress was made in reducing unemployment until early summer, however, as much-larger-than-normal increases in the labor force about matched the rise in employment. Rapid gains in the civilian labor force in the winter and early spring reflected not only a rise in participation rates in response to increases in employment opportunities but also the entry into the civilian labor market of several hundred thousand young men as the size of the Armed Forces was reduced further. Toward midyear, however, growth of the civilian labor force slowed, in part because the size of the

11. LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT



NOTE.—Basic data, Dept. of Labor, BLS. For civilian labor force and employment, 1970 and 1971 are changes from preceding year; the 1972 changes are annual rates calculated from half-year averages of seasonally adjusted data. Unemployment rate is monthly, seasonally adjusted.

Armed Forces leveled off after a decline of 1.2 million from the high in October 1968. Altogether, over the year ending in December the civilian labor force increased by more than 1.8 million persons. Reflecting continued strong gains in employment and slower growth in the labor force, the unemployment rate declined irregularly after May to 5.1 per cent in December.

The decline in unemployment was most pronounced among men 25 years of age and over—reflecting largely the strong recovery in manufacturing and blue-collar employment. Nevertheless the jobless rate for this age group, at 2.8 per cent in the fourth quarter, remained above the exceptionally low rate of late 1969. Unemployment among Negroes (10 per cent) and younger workers (about 16 per cent) changed little from the high rates of late 1971 and early 1972.

In 1973 the size of the Armed Forces is expected to decline only a little further, and growth of the civilian labor force may be closer to the 1.5 million expected per year on the basis of population growth and trends in participation rates. Such a situation would be conducive to a further reduction in the unemployment rate if employment gains continue at a rapid pace.

Table 3: LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Changes in thousands of persons, except for unemployment rates, which are monthly average rates in the final quarter of each year.

Item	Year ending fourth quarter of—			
	1969	1970	1971	1972 [1]
Total labor force	2,283	1,408	1,257	1,608
Armed forces	−53	−443	−353	−262
Civilian labor force	2,336	1,851	1,610	1,869
Total civilian employment	2,102	−64	1,409	2,344
Unemployment rates (in per cent):				
Total	3.6	5.8	5.9	5.3
Men, 25 and over	1.8	3.4	3.5	2.8
Men, 20 to 24	5.6	10.5	10.3	8.7
Women, 20 and over	3.7	5.5	5.7	5.2
Teenagers, 16 to 19	12.1	17.2	16.9	15.6
Whites	3.3	5.4	5.4	4.7
Negroes and others	6.2	9.2	10.1	9.9
Heads of households	1.9	3.5	3.6	3.1
Full-time workers	3.1	5.4	5.6	4.8

[1] Data on changes from 1971 to 1972 are adjusted to allow for the introduction of new estimates for population.

NOTE.—Basic data from Dept. of Labor, Bureau of Labor Statistics.

Wages, Labor Costs, and Prices

Progress was made in 1972 in reducing inflationary pressures. The program of wage and price controls initiated in August 1971 contributed to a slowing of the rise of hourly compensation, and with gains in productivity accelerating, the rise in unit labor costs moderated sharply. Price developments, particularly as measured by the comprehensive GNP fixed-weight index for the private economy, reflected the more favorable labor cost situation and the impact of price controls. The consumer price index posted a somewhat smaller increase during 1972 than in the pre-control period of 1971, and the rise in industrial wholesale prices slowed appreciably. On the other hand, prices of farm products and processed foods increased much more rapidly than before controls.

> On January 11, 1973, the President requested a temporary extension of the Economic Stabilization Act of 1970—the legal underpinning of the wage and price control program—and announced some important changes in the Phase II program. The new program—referred to as Phase III—is intended initially to maintain, with some modifications, the basic wage and price standards established in the early period of controls, but heavier reliance is placed on voluntary compliance and self-regulation. The requirement for prenotification of wage and price increases by large firms has been eliminated. However, foods beyond the farm level, health services, and construction remain under mandatory controls. The Price Commission and the Pay Board were abolished, and authority for the new program was centralized in the Cost of Living Council.

WAGES

The Pay Board, as originally set up, was charged with the task of limiting wage increases. Accordingly, it established standards for generally permissible pay increases consistent with the announced goal of reducing the rate of price increase to a range of 2 to 3 per cent. Including an allowance of about 3 per cent for long-term growth in productivity, the general wage and salary standard established by the Board called for a limit of 5.5 per cent on increases in wages and salaries and "covered" fringe benefits. In addition, the Board permitted increases in certain other qualified fringe benefits, and this in effect raised the over-all standard for compensation to as much as 6.2 per cent. Considerable flexibility was also built into the Board's regulations, including procedures for upward adjustment in the standards if necessary to correct gross inequities and to deal with other special situations.

The rise in money wages was slower in 1972 than in 1971. For the 12 months ending January 1973 (that is, the year following the post-freeze bulge in wages), adjusted hourly earnings of production and nonsupervisory workers in private nonfarm industries—the measure that most closely approximates changes in wage rates—increased by about 6 per cent; this compares with an annual rate of increase of nearly 7 per cent both in the pre-control period of 1971 and from January 1971 to January 1972. But the slowing was concentrated in the interval from January through August. Thereafter, the rise in wages was more rapid than earlier in the year. Because of the moderation of price increases, real wages of production workers in the private sector, which had begun to advance in 1971 following several years of little or no growth, rose more than 2.5 per cent over the course of 1972.

Experience in 1972 varied among individual industries, but over

Table 4: CHANGES IN AVERAGE HOURLY EARNINGS

Seasonally adjusted annual rates, in per cent

Industry	Aug. 1970–Aug. 1971	Aug. 1971–Jan. 1972	Jan. 1972–July 1972	July 1972–Jan. 1973	Jan. 1972–Jan. 1973
Total private nonfarm	6.9	7.0	4.7	6.8	5.9
Mining	6.8	9.2	4.4	8.9	6.7
Construction	7.8	6.8	3.2	10.5	6.9
Manufacturing	6.5	6.5	4.9	6.3	5.7
Transportation and public utilities	8.7	11.8	9.4	8.5	9.2
Wholesale and retail trade	6.0	5.5	4.4	4.9	4.7
Finance, insurance, and real estate	6.9	5.0	4.8	4.8	4.8
Services	7.3	7.6	2.7	7.7	5.3

NOTE.—Average hourly earnings of private nonfarm production and supervisory workers, adjusted for interindustry shifts and, in manufacturing only, for overtime hours. Basic data from Dept. of Labor, BLS.

the entire 12 months the slowing of the rise in wages was most pronounced for the services and trade sectors. Hourly earnings in construction, which continued to be under the control of the Construction Industry Stabilization Committee, increased by about 7 per cent over the 12-month interval. In manufacturing, hourly earnings rose appreciably less than in the immediate pre-control interval. However, some industry groups realized larger increases in 1972 than in 1971. This was true especially for transportation and public utilities; in these industries there were large wage increases for telephone workers, railroad workers, truckers, and dockworkers, mainly as a result of deferred-wage increases under collective bargaining agreements negotiated before controls were introduced.

In most industries the rise in hourly earnings accelerated in the closing months of 1972. The reasons for this are not entirely clear, but the acceleration appears to reflect in part a clustering of both new and deferred wage increases roughly a year after the 1971 freeze and in part a generally stronger labor market.

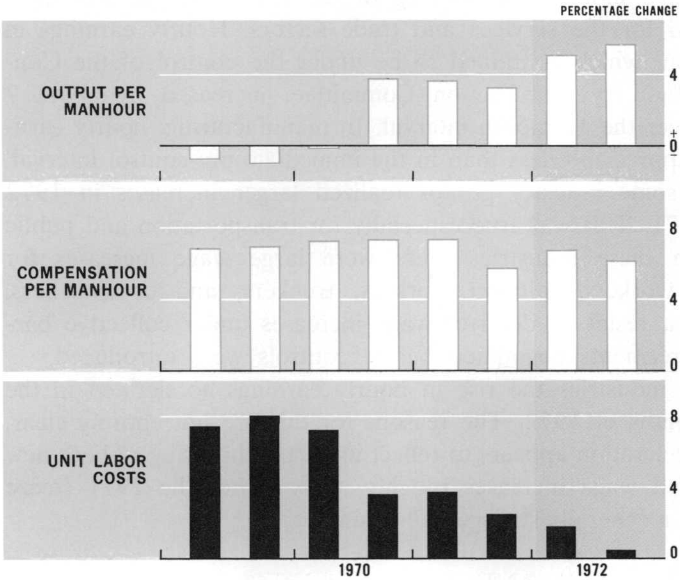
PRODUCTIVITY AND LABOR COSTS

Productivity increased sharply in 1972, as is typical of periods of strong growth in output. Output per manhour in the private nonfarm economy rose 5.1 per cent over the four quarters of 1972—double the long-term trend of 2.6 per cent. This performance exceeded the sizable 4.4 per cent rise in productivity in 1971, and it was in sharp contrast to 1969 and early 1970 when there was virtually no growth.

Employee compensation, which includes both wages and fringe benefits, increased 6.9 per cent over the course of 1972, compared with 8.1 per cent over the first half of 1971. The stepped-up pace of growth in productivity together with this slowing of the rise in employee compensation resulted in a sharp reduction of the rate of increase in unit labor costs. For the private nonfarm economy, such costs rose only 1.6 per cent during 1972—and they were virtually unchanged in the middle two quarters. This compares with increases of more than 8 per cent during 1969 and 5 per cent during 1970.

In 1973, gains in productivity may fall well short of those in 1972, particularly if real growth moderates to a more sustainable rate, as is widely expected. Further progress in restraining cost pressures is

12. PRODUCTIVITY, COMPENSATION, AND COSTS



NOTE.—Data are from Dept. of Labor, BLS; changes are based on half-year averages of seasonally adjusted quarterly estimates for the private nonfarm economy.

thus heavily dependent on the changes in wages and other employee benefits, emphasizing the importance of an effective Phase III program.

In appraising wage prospects, it should be noted that measures to restrain wage increases are continuing in Phase III. The fact that workers covered under expiring contracts have realized significant gains in real income may be conducive to some moderation in demands for higher wages. However, the number of workers involved in major contract negotiations, which was relatively small in 1972, will increase substantially in 1973. Contracts covering 4.7 million workers either expire or provide for wage reopenings. These include such key industries as trucking, railroads, rubber, electrical equipment, and autos. Furthermore, a heavy round of bargaining is anticipated in the construction industry, as many of the agreements signed in 1972 covered only one year.

PRICES

The moderation of the pace of price advance during 1972 was fairly general, except for prices of farm products, foods, and some materials. The fixed-weight price index for gross private product rose at an annual rate of about 3 per cent after a post-freeze bulge in the first quarter; this compares with an average annual rate of about 5 per cent in the first two quarters of 1971 preceding the 90-day price freeze.

Prices of food products at the farm level, which are not controlled, increased 19 per cent during 1972—considerably faster than in any other year since 1950. In December wholesale prices of livestock were 22 per cent above a year earlier; eggs, 26 per cent; and grains, 44 per cent. Prices of processed foods and feeds, however, rose less rapidly than those of farm products. Nevertheless, the average rise for this category for the year ending December amounted to 11.5 per cent. Because of the sharp rise in prices of farm products and foods, the total index of wholesale prices rose faster in 1972 than in the pre-control period from December 1970 to August 1971.

On the other hand, the rise in prices of industrial commodities moderated appreciably during 1972, reflecting mainly improvement in prices of producers' finished goods and fabricated materials. Price rises continued to be very sharp for many raw materials, including such important commodities as hides, skins, and wool. Lumber and

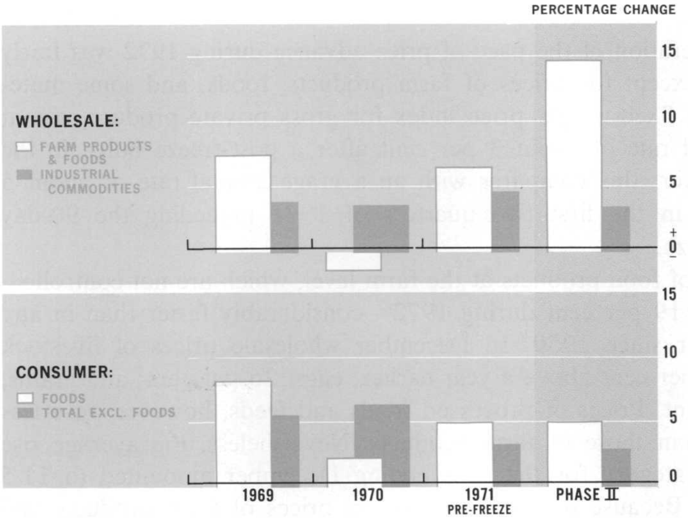
Table 5: PRICE CHANGES

Seasonally adjusted annual rates, in per cent

Item	Dec. 1969–Dec. 1970	Dec. 1970–Aug. 1971	1972 Dec.–Mar.	1972 Mar.–June	1972 June–Sept.	1972 Sept.–Dec.	1972 Dec.–Dec.
Wholesale prices, total	2.2	5.2	4.9	4.9	6.7	9.6	6.5
Industrial commodities	3.6	4.7	4.2	4.9	3.2	2.0	3.6
Farm products, processed foods, and feeds	−1.4	6.5	7.0	4.8	17.4	30.1	14.4
Consumer prices, total	5.5	3.8	3.6	2.2	4.6	3.2	3.4
Foods	2.2	5.0	7.2	0.0	7.0	5.2	4.7
Other commodities (less foods)	4.8	2.9	2.4	2.7	4.1	1.0	2.5
Services [1]	8.2	4.5	4.4	3.1	3.0	3.9	3.6

[1] Derived from data not adjusted for seasonal variation.
NOTE.—Basic data from Dept. of Labor, BLS.

13. PRICES



NOTE.—Based on data from Dept. of Labor, BLS. Changes measured from last month of previous period to last month of indicated period. Pre-freeze interval extends from December 1970 to August 1971; Phase II, from November 1971 to December 1972; changes for both intervals are annual rates, based on seasonally adjusted data.

plywood also advanced at very fast rates, but price advances for other building materials and metals moderated.

Consumer prices rose 3.4 per cent over 1972 compared with an annual rate of 3.8 per cent in the pre-control period of 1971. But retail food prices advanced by almost 5 per cent and meat prices by more than 10 per cent during 1972. In contrast to food prices, there was a marked deceleration of the rise in the cost of services as well as a more moderate slowing for nonfood commodities. The full extent of the improvement in costs of services in 1972 compared with the pre-freeze months of 1971 was masked by the sharp decline in mortgage interest costs in the earlier period. When home financing costs are excluded, the rise for service costs in 1972 dropped to about half the early-1971 rate. The slowing of the rise in costs of medical care—which seems to reflect in considerable part the impact of controls—was dramatic; and rents, utility costs, and other major services rose at substantially reduced rates.

In early 1973 it appeared that a somewhat faster rise in prices was in immediate prospect. As noted earlier, some pick-up in the rise in unit labor costs seemed likely, following the marked slowing in 1972. Indeed, such costs were raised at the outset of the year, when the employer tax for social insurance was boosted sharply. Prices of farm products rose sharply further in January, and food prices are expected to continue to rise rapidly for some months. More generally, strong domestic and world demands relative to supply have been exerting increasing pressure on prices of materials, especially of internationally traded commodities.

Following an upward spurt in prices of farm products and foods in the early months of 1973, however, retail food prices may tend to level off. Contributing to this is a prospective significant increase in per capita food supplies, particularly of meats, in the second half of 1973.

Federal Fiscal Policy

In fiscal years 1971 and 1972 large Federal deficits were generally accepted as appropriate, first to cushion the recession of 1970, and then to stimulate recovery. As recovery turned into vigorous expansion, however, the administration recognized that continued sharp increases in Federal spending and large deficits would be inappropriate in the developing environment of high and rising levels of output and employment. A major effort was made, therefore, in the budget document released in January 1973 to limit increases in spending, and the expansionary thrust of fiscal policy is indicated to moderate greatly as calendar year 1973 progresses.

The unified budget deficit of $23.2 billion that was realized for fiscal year 1972, while large, was $15.6 billion less than had been projected in the January 1972 budget document. Outlays did accelerate sharply in the spring of 1972, but the anticipated speed-up was not fully realized. More than half of the $4.7 billion short-fall in spending in fiscal year 1972 was due to the unexpected delay in the enactment of revenue sharing and to lower payments on unemployment insurance. Defense spending, however, increased sharply in the spring of 1972—about in line with budget projections.

Federal budget receipts in fiscal year 1972 turned out to be $10.8 billion higher than had been projected, in part because of the rapidity of economic expansion but mainly because of an unusual amount of overwithholding of personal income taxes related to the introduction of a new withholding schedule in January 1972. This development will reduce Federal net receipts in the spring of 1973 when individuals file their tax returns for 1972.

Prior to adjournment in October 1972, Congress enacted legislation that would increase outlays in fiscal year 1973 to a level some $6 billion to $8 billion above the $250 billion proposed by the administration in September 1972. The administration requested Congress to enact a ceiling of $250 billion on outlays for the fiscal year 1973. Although such a ceiling was not enacted, the administration has indicated that it intends to hold spending to that level by adopting various economies, and by impounding appropriated funds, if necessary. The new budget indicates that economies are planned in fiscal years 1973 and 1974 in a large number of areas. In addition, the budget calls for large sales of assets (negative outlays) in these two fiscal years.

Spending in the first two quarters of fiscal year 1973 (that is, the second half of calendar 1972) was in line with the proposed $250 billion. Outlays for national defense, while still strong, fell significantly below the levels attained in the latter half of fiscal year 1972. As expected, nondefense spending increased very sharply in the last quarter of calendar year 1972, reflecting two factors: the 20 per cent boost in social security benefits, effective in October 1972, which costs about $8 billion annually; and the first payment to State and local governments under the new general revenue-sharing program, which is expected to cost more than $5 billion in the first full year. However, payments made for revenue sharing in December 1972 and in January 1973 covered revenue-sharing accruals for all of the calendar year 1972; quarterly payments, beginning in April 1973, will be much smaller.

The budget document issued in January 1973 anticipates that the deficit in fiscal year 1973 will total about $25 billion—a little larger than the deficits realized in fiscal years 1971 and 1972—but that the deficit in fiscal year 1974 will be reduced to less than $13 billion. The full-employment budget, on a unified budget basis, is projected to show a deficit of around $2 billion in fiscal year 1973 and an approximate balance in fiscal year 1974.[1]

[1] The administration's estimate of full-employment receipts does not incorporate the effect of any overwithholding that is regarded as transitory. Inclusion of such overwithholding would have reduced the full-employment deficit in fiscal year 1972 and increased this deficit in fiscal year 1973.

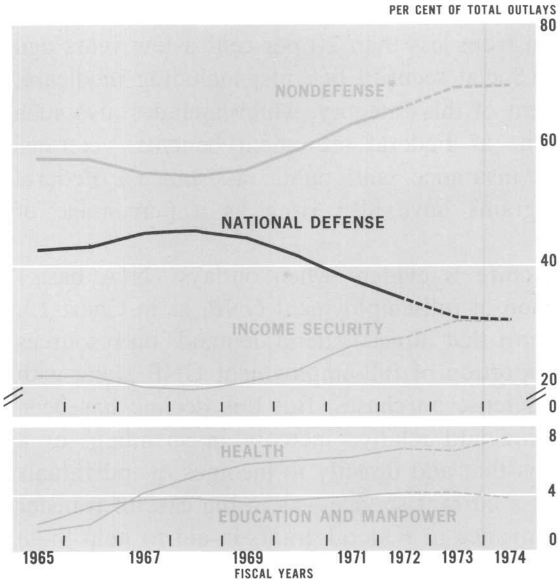
Table 6: FEDERAL BUDGET SUMMARY

Fiscal-year totals, in billions of dollars

Item	1970	1971	1972	1973e	1974e
Budget receipts	193.7	188.4	208.6	225.0	256.0
Budget outlays	196.6	211.4	231.9	249.8	268.7
Surplus or deficit (−)	−2.8	−23.0	−23.2	−24.8	−12.7
Full-employment surplus, or deficit (−)	2.6	4.9	−3.9	−2.3	.3

e Estimates.
NOTE.—Data from the *Budget of the U.S. Government, Fiscal Year 1974.*

14. CHANGING PATTERN OF FEDERAL OUTLAYS



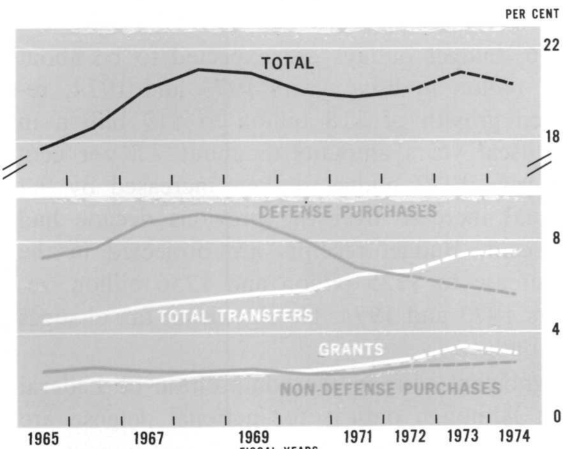
*Three components of this total are shown below (please note differences in scales for the two grids).
NOTE.—Data from the *Budget of the U.S. Government, Fiscal Year 1974.*

As shown in Table 6, budget outlays are expected to be about $250 billion and $269 billion in fiscal years 1973 and 1974, respectively. The projected growth of $18 billion to $19 billion in spending in these two fiscal years amounts to about 7.5 per cent annually. In the fiscal year 1972 budget outlays increased by 9.7 per cent, and the annual increase over the previous decade had averaged about 8 per cent. Budget receipts are projected in the budget document to increase to $225 billion and $256 billion, respectively, in fiscal years 1973 and 1974. No significant tax changes are proposed in the new budget.

There has been a significant shift in the composition of Federal outlays in recent years. Although outlays for national defense are projected to increase absolutely, their proportion of total budget expenditures, as may be seen in Chart 14, has declined from more than 40 per cent in fiscal years 1967 and 1968 to a projected figure of about 30 per cent in fiscal years 1973 and 1974. On the other hand, the proportion of total budget outlays devoted to "income security" has risen from less than 20 per cent a few years ago to about 30 per cent. (Social security benefits, including medicare, are the biggest component of this category, which includes also such other supports to income as Federal retirement benefits, veterans' benefits, unemployment insurance, and public assistance.) Federal outlays for health programs have also risen as a percentage of the total.

A broadly similar picture is evident when outlays (NIA basis) are shown as a proportion of full-employment GNP, as in Chart 15. It is evident from this chart that direct Federal demands on resources have decreased as a proportion of full-employment GNP along with the relative decline in defense purchases. But this decline has been offset by a large absolute and relative increase in spending for a great variety of programs that add directly to incomes of individuals without the provision of a current service—as in the case of transfer payments—and by an advance in Federal grants-in-aid to help State and local governments provide for a wide range of needs.

15. FEDERAL EXPENDITURES NIA Relative to Full-Employment GNP



NOTE.—Basic data on expenditures are from the *Budget of the U.S. Government, Fiscal Year 1974*. Data on full-employment GNP are F.R. estimates.

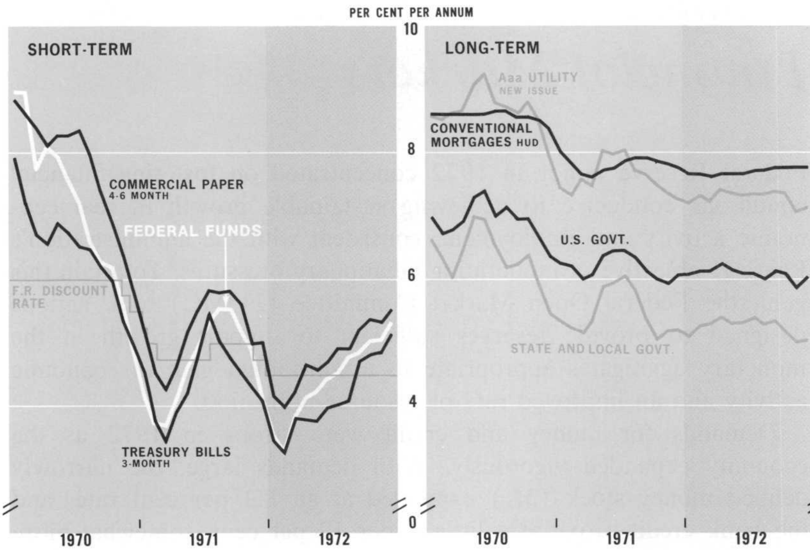
Monetary Policy and Financial Markets

Federal Reserve policy in 1972 concentrated on fostering financial conditions conducive to achieving sustainable growth in real economic activity and employment, consistent with the administration's Phase II objective of moderating inflationary pressures. To attain this goal, the Federal Open Market Committee (FOMC) took actions designed to provide reserves sufficient to support growth in the monetary aggregates appropriate to a substantial gain in economic activity and an improved rate of resource utilization.

Demands for money and credit were strong in 1972 as the economy expanded vigorously. With demands large, the narrowly defined money stock (M_1) expanded at an 8.3 per cent rate, and the bank credit proxy at a little under 12 per cent, somewhat more rapid increases than in 1971. Reserve provision through open market operations, as indicated by the rise in nonborrowed reserves to support private nonbank deposits, was more restrained than in the previous year. As a consequence, short-term interest rates rose substantially after the winter of 1972 and upward pressures continued into early 1973. The Federal Reserve discount rate was raised by ½ percentage point to 5 per cent in mid-January of 1973 and by another ½ percentage point in late February. Partly as a result of the cumulative impact of 1972's developing monetary restraint, the rate of monetary expansion moderated in early 1973.

Interest rates on long-term securities and residential mortgages remained quite stable throughout 1972, reflecting in part the slower rise in prices in the economy and the reduction of inflationary expectations. In addition, demands placed on securities markets by the U.S. Government, by State and local governments, and by businesses moderated. The total volume of external financing still remained historically high, however, and the bulk of this demand was met through financial institutions—especially the demands for consumer and mortgage loans and business demands for bank loans.

16. INTEREST RATES



NOTE.—Monthly averages except HUD (based on quotations for one day each month). Yields: U.S. Treasury bills, market yields on 3-month issues; prime commercial paper, dealer offering rates; conventional mortgages, yields on first mortgages in primary markets, unweighted and rounded to nearest 5 basis points, from Dept. of Housing and Urban Development; corporate bonds (Federal Reserve series), averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to an Aaa basis; U.S. Govt. bonds, market yields adjusted to a 20-year constant maturity by U.S. Treasury; State and local govt. bonds (20 issues, mixed quality), Bond Buyer.

MONETARY POLICY

In its day-to-day implementation of monetary policy during 1972, the FOMC placed somewhat greater emphasis on bank reserves while continuing to give weight to money market conditions. At the same time the longer-run financial objectives of System policy continued to be concerned with various monetary aggregates, interest rates generally, and credit conditions.

The bank reserve measure emphasized by the FOMC was reserves available to support private nonbank deposits (RPD's)—total member bank reserves less reserves required against U.S. Government and interbank deposits. Because short-run fluctuations in the latter two types of deposits have only limited impact on economic activity and are often large and erratic, the System generally is prepared to accommodate changes in demands for those deposits. In view of the inherent volatility of U.S. Government and interbank deposits, growth in RPD's is considerably more stable on a month-to-month and quarter-to-quarter basis than that for total reserves. However, RPD's too fluctuate fairly widely in the very short run, because week-to-week and month-to-month movements in private demand deposits, which serve as the principal medium of exchange in the economy, are highly volatile.

In the first quarter of 1972 System open market operations provided for fairly rapid expansion in RPD's, as monetary policy was directed toward creating conditions favorable to rapid economic recovery and toward making up for the shortfall in the growth of M_1 (currency plus private demand deposits adjusted) late in 1971. Since growth in the monetary aggregates had proceeded at very high rates during February and March, however, the System subsequently provided nonborrowed RPD's more reluctantly, and RPD growth slowed to an annual rate of about 6.5 per cent in the second quarter—considerably less than in the first. Expansion in M_1 also dropped substantially below its first-quarter rate.

Table 7: GROWTH IN BANK RESERVES

Item	1971	1972	1972 I	1972 II	1972 III	1972 IV
	In per cent[1]					
Total reserves	7.2	10.6	10.4	12.6	3.6	14.2
Reserves to support private deposits (RPD's)	7.2	9.7	10.4	6.6	9.9	10.6
Nonborrowed reserves	8.1	7.1	10.7	13.1	−.8	4.8
Nonborrowed RPD's	8.2	5.9	10.7	7.2	5.0	.4
	In millions of dollars[2]					
MEMO: Borrowed reserves	−244	1,096	−20	−41	360	789

[1] Quarterly changes, shown at seasonally adjusted annual rates, are calculated from the average amounts outstanding (adjusted for changes in reserve requirements) in the last month of each quarter. Annual changes calculated from December averages.

[2] Quarterly changes are calculated from the average amounts outstanding (seasonally adjusted and adjusted for changes in reserve requirements) in the last month of each quarter, not annualized. Annual changes calculated from December averages.

In the second half of the year continued rapid expansion in economic activity resulted in increased bank demands for reserves to support additional credit and in monetary expansion. While the growth rate of total RPD's rose again to the high levels reached in the first quarter, reserve provision through open market operations was increasingly restrained, and more of the reserve expansion late in the year was the result of increased borrowing by member banks from the Federal Reserve Banks. During the last quarter of the year nonborrowed RPD's increased by a nominal amount, but banks increased their average borrowings by more than $700 million.

Although bank reserves grew rapidly during 1972 as a whole, growth in the demand for reserves was even greater, and this contributed to a tightening of money markets as the year progressed. Until about mid-February, short-term interest rates continued the decline that had begun by the fourth quarter of 1971, as reserves expanded rapidly. During the second quarter, however, demands for money and bank credit increased faster than the Federal Reserve was willing to supply reserves, and the excess demand for funds generated upward pressures on market rates of interest. This pattern continued during the remainder of the year, and by the end of December most short-term rates had increased more than 2 percentage points from their February lows. Even so rates were still somewhat below the high levels experienced in July 1971.

Following the increase in open market rates, commercial banks adjusted their prime rates upward in several stages—from a low of 4½ per cent in early spring to 6 per cent just before the year-end, and then to 6¼ per cent in early 1973. (As already noted, the Federal Reserve discount rate, unchanged at 4½ per cent throughout 1972, had been raised to 5 per cent in mid-January 1973 and to 5½ per cent in late February.) While short-term rates increased, most longer-term rates showed little change on balance, reflecting the substantial flows of funds into capital markets and the continuing moderation in long-term credit demands in securities markets during most of the year.

In addition to its strictly monetary policy actions the Federal Reserve made several other regulatory changes in 1972 that had significant effects on financial markets. One area of action related to stock market credit. In the early months of 1972 total credit extended by brokers and banks for the purpose of purchasing or carrying securities had expanded substantially. When it subsequently appeared that further growth in stock market credit might contribute to inflationary pressures, the Board of Governors raised initial margin requirements on stocks in an effort to forestall such growth. This increase, effective November 24, raised requirements to 65 per cent from the 55 per cent level that had prevailed since December 1971. In an earlier security credit action—effective September 18, 1972—the Board had introduced a technical amendment to its margin regulations designed to improve the quality of stock market credit; under the amendment, customers with low-margin accounts must increase their equity when offsetting sales and purchases of stock collateral are made on the same day.

On November 9 the Board instituted two key changes in its Regulations D and J that affected the reserve positions of member banks. These changes were not designed to meet any general monetary policy objective but rather to restructure reserve requirements against Federal Reserve member bank deposits on a more uniform basis (Regulation D) and to speed up and modernize the Nation's check-clearing system (Regulation J). In an effort to neutralize the impact of the changes insofar as monetary policy was concerned, implementation was timed to coincide with a period of regular seasonal reserve needs and was coordinated with open market operations. The net effect of these two regulatory changes was to provide about $1.1 billion of the seasonal reserve need.

Prior to the change in Regulation D there were two classifications of banks for reserve purposes: reserve city and country. Most banks in the major financial centers were classified as reserve city banks, and all other banks were classified in the country bank category. Under that system some smaller banks carried the heavier reserve requirements of a reserve city classification simply because of their geographical location, whereas a few large banks benefited from their country bank status.

Over the years the large reserve city banks have tended to exhibit greater deposit volatility than the smaller country banks. Such conditions indicated a need for the reserve city banks to maintain greater liquidity in the form of reserves, as protection against potentially large deposit outflows. However, with the evolution of our modern-day banking system, credit markets have become national in scope, and reserve requirements based on geographical considerations are no longer appropriate. The change in Regulation D eliminated the geographically based distinction between reserve city and country banks for reserve purposes and established a new system of graduated reserve requirements for net demand deposits that is based solely on the amount of deposits and is applicable to all member banks.[2]

The effect of the change in Regulation D alone was to reduce member banks' required reserves by roughly $3.2 billion in the aggregate. With the exception of a few very large banks that had previously enjoyed country bank status, each member bank realized some reduction in its required reserves, with the exact amount depending on the amount of the bank's deposits and its previous status as reserve city or country bank.

Prior to the November 9 change in Regulation J, most member and nonmember banks located outside Federal Reserve Bank or branch cities had been required to remit funds one or more business days after the checks were presented for payment by the Federal Reserve. Most banks located within such cities, in contrast, had been required to remit on the same business day the checks were received.[3] Initially, the reason some banks had been permitted to remit on a delayed basis was because of transportation and communication problems. Specifically, banks that were located a considerable distance from Federal Reserve clearing facilities needed additional time in order for remittance drafts to reach their Federal Reserve office.

---

[2] According to this system the required reserve ratios applicable to the various portions of a bank's deposits are as follows:

Amount of net demand deposits (in millions of dollars)	Reserve percentage applicable
2 or less	8
2–10	10
10–100	12
100–400	13
Over 400	17½

Previously the required reserve ratio on the first $5 million of net demand deposits had been 17 per cent for reserve city banks and 12½ per cent for country banks, and the required ratio on such deposits of more than $5 million had been 17½ and 13 per cent, respectively.

[3] Nonmember banks remit for checks presented by the Federal Reserve through member bank correspondents.

However, expanded use of both carrier services and wire transfers of funds has greatly improved the communication among banks and has removed the need for additional remittance time. Recognizing these developments, the change in Regulation J required essentially all banks to whom the Federal Reserve presents checks for collection to remit on the same day that the checks are presented.

The effect of the change in Regulation J was therefore to give rise to a once-and-for-all drain of reserves at the banks that had previously benefited from delayed remittance for their checks. In the aggregate, before counting offsets, this drain amounted to roughly \$4.4 billion. Slightly more than half of this aggregate was offset by reserve gains due to faster crediting by the Reserve Banks on checks presented to them for collection that are drawn on banks in the same Federal Reserve territory as the collecting bank. If this partial offset is taken into account, the reserve drain for member banks resulting from the change in Regulation J amounted to about \$2.1 billion. For those banks that experienced a significant adverse effect, temporary waivers of penalties on reserve deficiencies are being permitted to cushion the impact of the changes.

MONETARY AGGREGATES

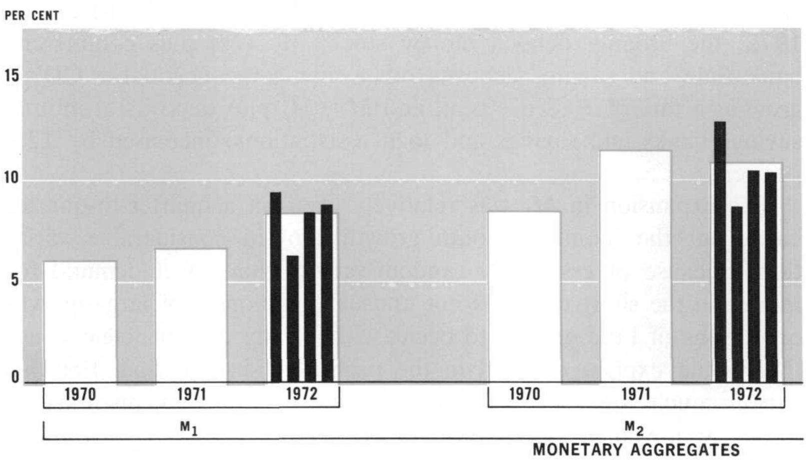
In addition to the 8.3 per cent growth in M_1 already noted for 1972, the broadly defined money stock, M_2 (M_1 plus commercial bank time and savings deposits other than large negotiable CD's), grew at a rate of 10.8 per cent, and M_3 (M_2 plus deposits at mutual savings banks and savings and loan associations) increased by 12.9 per cent.

The expansion in M_1 was relatively even on a quarter-to-quarter basis, but the month-to-month growth showed considerable variation. Because of essentially random factors that affect demand for money in the short run, it is not unusual for months of large growth or months of little growth to occur without any evident, clear cause that would explain demand in the particular short period. For this reason much less weight is given to monthly movements than to quarterly movements as a factor to be considered in monetary policy decisions.

The following examples indicate how extreme the monthly movements in the money stock may be—and some of the reasons. After rapid expansion early in 1972, growth in M_1 slowed in May and June, reflecting not only System efforts to slow the rate of expansion in RPD's but also the build-up in U.S. Treasury balances as a result of higher withholding rates on 1972 personal tax liabilities. On the other hand, in both July and December, expansion in M_1 was unusually large. In July most of the growth in M_1 occurred around the holiday period. In December the rapid growth resulted in some part from a contraseasonal increase in demand deposits held by State and local governments that reflected the disbursements of Federal revenue-sharing funds early in December. The December expansion was followed by little net change in M_1 on the average in January 1973.

Consumer-type time and savings deposits increased sharply through the early months of 1972 when market yields on competing assets were falling relative to the rates offered on such deposits. Thus, first-quarter growth rates of the broader measures of the money stock, M_2 and M_3, were not only considerably above the growth rate for M_1, but also at the highest levels since the first quarter

17. GROWTH IN MONETARY AGGREGATES

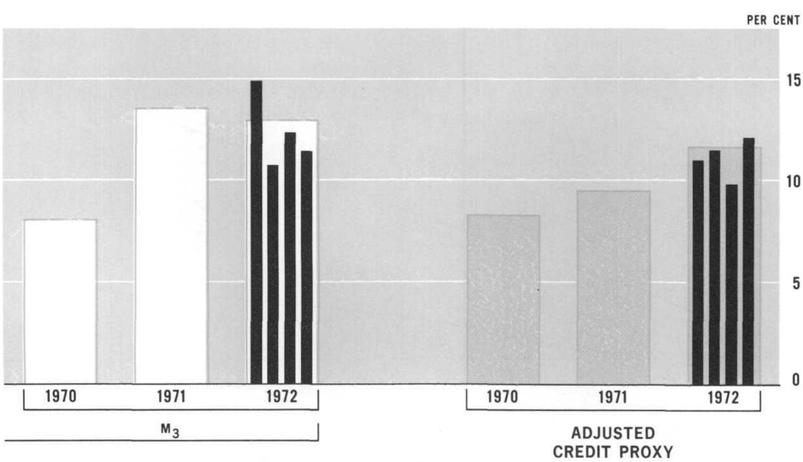


M_1: Currency held outside the Treasury, F.R. Banks, and the vaults of all commercial banks, plus demand deposits other than interbank and U.S. Govt.
M_2: M_1 plus time deposits at commercial banks other than large certificates of deposit.
M_3: M_2 plus deposits of mutual savings banks and savings capital of savings and loan associations.

of 1971. Thrift deposits expanded somewhat less rapidly as 1972 progressed, but net inflows remained quite strong despite the increasing attractiveness of yields on competing open market securities. Some larger commercial banks had lowered rates on consumer-type accounts at the beginning of the year in an effort to keep such accounts from experiencing excessive growth, but by July most banks were offering rates at or close to ceiling levels.

Growth in bank credit during 1972—as measured by the adjusted credit proxy [4]—was supported not only by increases in demand and consumer-type time and savings deposits but also by a sharp rise in net sales of CD's. Commercial banks bid aggressively for such funds, and negotiable CD's outstanding increased by more than $10 billion between January and December, an amount that exceeded the sizable increase recorded in the preceding year. Banks did not borrow any significant amounts in the Euro-dollar market during 1972, in part because of the high marginal reserve requirement

[4] Total member bank deposits subject to reserve requirements, plus Euro-dollar borrowings, bank-related commercial paper, and certain other nondeposit items.

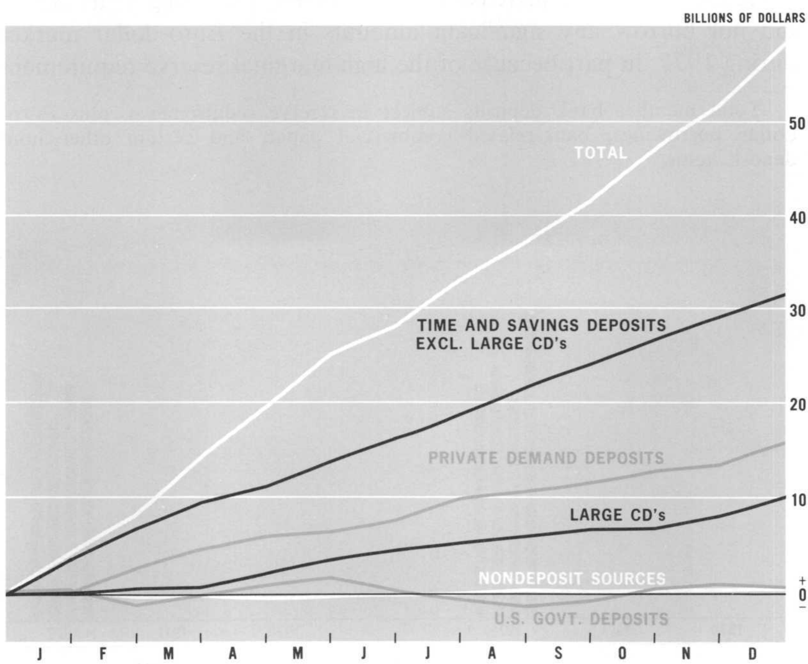


Adjusted credit proxy: Total member bank deposits subject to reserves, plus Euro-dollar borrowings, bank-related commercial paper, and certain other nondeposit items.
NOTE.—Quarterly rates of growth derived from daily-average data for last month of the quarter relative to those for last month of preceding quarter.

on this type of borrowing and in part because of the availability of domestic CD's.

The expansion in CD's did not begin until after the first quarter, when growth in other time deposits began to slow, but it continued strong throughout the remainder of the year with only minor slowdowns occurring in June and October. As yields on alternative short-term money market instruments began to rise, and as business loan demands on banks continued strong, banks increased offering rates on CD's in order to compete for additional funds. By the end of December rates on negotiable CD's sold by prime New York banks had reached 5½ per cent—2 percentage points above the first-quarter

18. MAJOR SOURCES OF BANK FUNDS, 1972



NOTE.—Time and savings deposits other than large certificates of deposit and private demand deposits are for all commercial banks. Time and savings deposits other than large CD's exclude those due to domestic commercial banks and to the U.S. Govt. as well as balances accumulated for repayment of personal loans. Large CD's are negotiable CD's issued in denominations of $100,000 or more by major commercial banks. U.S. Govt. deposits and nondeposit sources of funds data are for member banks only.

low. With month-to-month fluctuations in total demand deposits and total time deposits partly offsetting one another, the bank credit proxy maintained relatively stable growth throughout the year, increasing at about a 10 to 12 per cent annual rate in each of the four quarters.

INTERMEDIATED CREDIT FLOWS

As a result of several factors—including the nature of credit demands, the strong preference on the part of the public for demand and time deposits, the associated developments in interest rates, and others—financial institutions supplied a substantially larger volume of funds than in 1971. Banks, other depositary institutions, and contractual institutions such as insurance and pension funds accounted for more than four-fifths of the total advanced, an even larger share

Table 8: FUNDS SUPPLIED TO NONFINANCIAL SECTORS IN CREDIT AND EQUITY MARKETS

In billions of dollars

Sector supplying	1971	1972	1972			
			I	II	III	IV
All sectors	**156.3**	**168.1**	**139.4**	**161.2**	**153.9**	**216.9**
U.S. Govt. and sponsored credit agencies	6.0	8.9	11.0	7.9	9.3	7.4
Federal Reserve System	8.8	.2	3.8	5.6	−6.3	−2.2
Foreign sources	27.3	10.8	17.2	−3.0	16.5	12.7
Private financial institutions	*124.9*	*153.2*	*137.5*	*139.3*	*151.0*	*184.8*
Commercial banking	49.8	65.3	57.3	49.6	64.8	89.1
Savings institutions	42.1	49.6	49.5	48.8	49.9	50.1
Insurance and pension funds	30.2	32.8	27.2	37.0	31.7	35.2
Other	2.8	5.5	3.5	3.9	4.6	10.4
Net funds raised in credit and equity markets by financial institutions [1]	9.6	19.6	9.7	17.9	22.5	28.2
Funds advanced by private domestic nonfinancial sectors in credit and equity markets [2]	*−1.0*	*14.4*	*−20.3*	*29.3*	*5.8*	*42.4*
Households	−16.8	.4	−27.5	16.0	−4.9	17.7
Nonfinancial business	8.1	4.8	−1.2	7.7	.9	11.4
State and local governments	7.7	9.3	8.4	5.6	9.8	13.2
MEMO: Net change in institutional deposits and currency held by private domestic nonfinancial sectors	95.7	107.2	122.0	87.2	106.1	113.2

[1] Bonds, notes, commercial paper, loans from home loan banks, equities, and mutual fund shares. Includes borrowing by Federally sponsored credit agencies.

[2] Total funds advanced *less* amounts supplied by groups above *plus* net credit and equity funds raised by financial institutions.

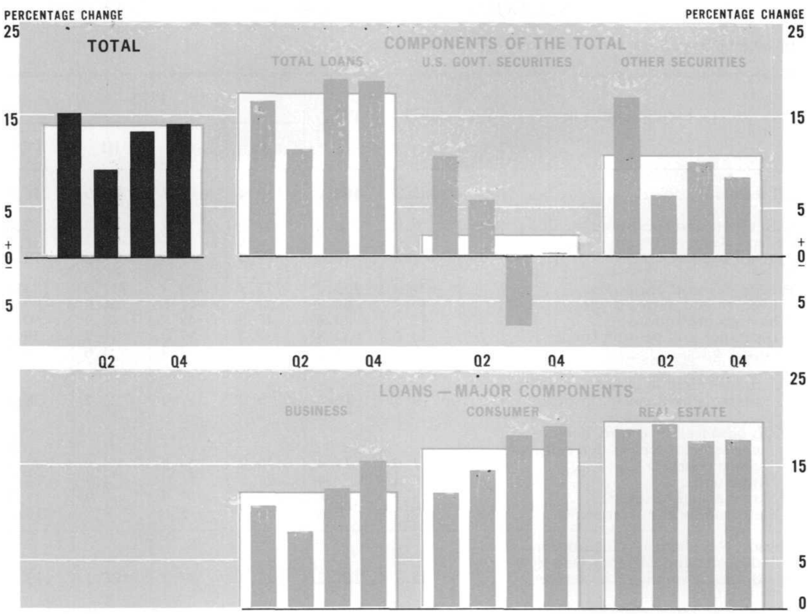
NOTE.—Data from flow of funds accounts. Quarterly data are at seasonally adjusted annual rates.

than in the preceding year. Funds advanced directly by domestic nonfinancial sectors increased following a small decline in 1971, while foreigners accounted for a substantially reduced—though appreciable—volume of identified domestic credit supplies, a reflection of the smaller accumulation of dollars by foreign central banks.

Total loans and investments at commercial banks rose substantially from the 1971 year-end level, exceeding by a sizable margin the $50 billion growth during 1971. Banks channeled more than 80 per cent of the 1972 increase in their available funds into loan expansion and put less in securities than they had in 1971.

Strengthening of loan demands at banks was the principal reason why banks showed less interest in acquiring securities in 1972. However, another factor was that Treasury financings were smaller than in 1971. After the first quarter of the year banks added only

19. BANK CREDIT, 1972



NOTE.—Quarterly data are changes based on seasonally adjusted totals at annual rates. Total loans and investments and business loans have been adjusted for transfers between banks and their holding companies, affiliates, subsidiaries, or foreign branches.

marginally to their holdings of U.S. Government securities. On the other hand, acquisitions of other securities—primarily State and local government issues, but also Federal agency securities—were larger than those of Treasury securities, even though they too remained well below the high rates of late 1970 and early 1971.

Banks channeled a considerable proportion of their increased resources into business loans, which expanded at especially rapid rates in the last two quarters of 1972. Early in the year, most of the expansion in such loans was concentrated at banks outside New York City, which tend to serve the needs of smaller regional firms. Meanwhile, larger corporations continued to rely on other sources—including a greater volume of internally generated funds—for financing. In the second half of the year, however, both banks in New York City and those outside encountered strong credit demands from corporations seeking working capital to finance inventories and enlarged operations. As businesses sought more credit at banks, they sought less in capital markets.

Consumers borrowed record amounts during 1972 to finance purchases of durable goods. As a result of their borrowing at commercial banks, the banks' share of total consumer credit increased during the year.

Real estate loans extended by commercial banks also rose rapidly in a year when total mortgage debt was expanding at the fastest rate since 1955. However, approximately two-thirds of the growth in residential mortgage debt outstanding in 1972 was accounted for by nonbank savings institutions, with savings and loan associations maintaining their dominance in that market.

Despite the record level of demands, which carried housing starts to a new high, contract interest rates on residential mortgages remained relatively stable. This reflected the availability of mortgage funds from both bank and nonbank sources and some secondary support from Government sponsored agencies. Insofar as the volume of net lending on Government-underwritten residential mortgages is concerned, there was some further moderation, however, reflecting in part increased competition from conventional mortgages on which lower downpayments were instituted by savings and loan associations following further liberalization of regulations by the Federal Home Loan Bank Board in 1971.

DEMANDS ON SECURITIES MARKETS

Demands on securities markets moderated in 1972, as total funds raised by corporations and government units declined and corporations met a larger share of their reduced financing needs through mortgages and bank loans. Flotations of securities by the U.S. Government, by State and local governments, and by corporations all fell below the substantial volumes issued in 1971. This reduction of demand pressures on securities markets was an important factor contributing to the stability of long-term interest rates during the year.

Table 9: FUNDS RAISED IN CREDIT MARKETS BY NONFINANCIAL SECTORS

In billions of dollars

Sector, or type of instrument	1971	1972	1972 I	1972 II	1972 III	1972 IV
Total funds raised	**156.3**	**168.1**	**139.4**	**161.2**	**153.9**	**216.9**
By sector:						
U.S. Govt. [1]	25.5	17.3	5.4	17.5	8.3	38.1
Other	*130.8*	*150.8*	*134.1*	*143.7*	*145.6*	*178.8*
Nonfinancial business	63.0	70.6	64.4	72.1	62.0	83.9
State and local governments	20.6	14.6	16.2	11.7	16.7	13.8
Households	41.6	62.0	49.3	58.4	64.8	74.9
Foreign	5.6	3.5	4.2	1.6	2.0	6.2
By type of instrument:						
U.S. Govt. securities [1]	25.5	17.3	5.4	17.5	8.3	38.1
Corporate and foreign bonds	20.3	13.7	12.9	14.7	13.0	14.3
Corporate equity	13.5	12.4	10.3	15.9	11.8	11.4
State and local govt. debt [2]	20.2	14.4	15.1	12.9	16.1	13.5
Mortgages	*47.0*	*64.3*	*54.5*	*64.2*	*68.2*	*70.2*
Residential	34.9	46.8	39.0	46.4	49.6	52.1
Other	12.1	17.5	15.5	17.8	18.5	18.0
Bank loans n.e.c.	13.0	21.6	17.1	14.7	19.0	35.6
Open market paper	−.4	−.3	2.9	.3	−5.5	1.0
Consumer credit	10.4	19.2	13.1	18.0	18.7	26.1
Other loans	6.9	5.5	8.1	2.9	4.3	6.8

[1] Public debt securities and budget agency securities.
[2] Includes both long- and short-term borrowing.
NOTE.—Data are from flow of funds accounts; quarterly figures are at seasonally adjusted annual rates.

Several developments that have already been mentioned helped to hold down the Treasury cash deficit in 1972. One was the larger-than-anticipated increase in tax revenues. Another was that the growth in Federal spending was restrained. As a result of these and other developments, the Treasury was able to reduce its borrowing from the public during the calendar year to about $15 billion, more than $9 billion less than it had borrowed in 1971. This reduction was a major factor in reducing supply pressures in the securities markets.

Continued weakness in the U.S. balance of payments and its associated impact on international flows of funds led to sizable accumulations of dollars by foreign central banks. Although these funds would probably have been invested in U.S. markets in any event, accumulation in central banks directed their investment in marketable ($4.3 billion) and nonmarketable ($3.8 billion) Treasury issues. These purchases supplied more than half of the Treasury's total borrowing needs.

Table 10: U.S. GOVERNMENT FINANCE

In billions of dollars

Item	1970	1971	1972
Deficit	**11.4**	**24.8**	**17.4**
Amount financed by changes in cash assets and other items	−.5	....	2.1
Total borrowing from public	**11.8**	**24.8**	**15.3**
Net Federal Reserve purchases of Treasury securities	5.0	8.1	−.3
Net Treasury borrowing from private investors:			
Marketable:			
a. Foreign	7.5	15.2	4.3
b. Other	−1.5	−10.3	3.6
Nonmarketable:			
a. Foreign	1.9	11.1	3.8
b. Other	.3	2.1	3.4
Borrowing from all sources by budget agencies	−1.3	−1.4	.7
Memoranda:			
Net borrowing by Government sponsored agencies	8.2	1.1	3.1
Federal Reserve purchases of agency issues	....	.5	.8

It should be noted, however, that acquisitions of marketable Treasury debt by foreign official institutions had been much larger in 1971 than they were in 1972. Furthermore, the U.S. public had been a large net seller of such debt in 1971. While acquisitions of marketable debt by the public in 1972 amounted to about $3.5 billion, this represented a shift of nearly $14 billion from 1971 since the public had sold more than $10 billion in that year.

Interest rates on short- and long-term Government securities followed divergent patterns during 1972. Short-term rates, which had declined rather sharply following the imposition of the President's new economic program in August 1971, reversed course in early 1972 and rose significantly over the last 9 months of the year in association with the large demands for short-term credit generated by the accelerating economy and the progressive firming in monetary policy.

Long-term rates, on the other hand, remained quite stable throughout 1972. The lack of significant upward yield pressure in this sector enabled Treasury debt managers to be increasingly innovative in their approach to financing the debt. One of their announced aims, in addition to maintaining the average maturity of the debt, was to develop a viable market in long-term Government issues. Toward this end the Treasury issued a total of $3.4 billion of securities to the public in the 10-year maturity area in the February, May, and August refundings. In addition, it sold $625 million of 20-year bonds in early January 1973; this was the longest maturity offered to investors in about 10 years.

In contrast to the Federal sector, State and local governments moved into a budget position of substantial surplus during 1972. Net issues of securities by these governments declined from the peak volume of 1971. There was relatively little growth in capital outlays, and nonborrowed funds were readily available, as both tax revenues and Federal grants increased. Expenditures rose less rapidly than did receipts, and these governments were able to strengthen further their liquidity positions, which had already been improved by the large volume of securities sold in late 1970 and 1971.

Interest rates on long-term municipal bonds fluctuated in a narrow range during 1972. Although banks reduced their acquisitions of these securities during the year, the impact of this reduction on interest rates was offset by the decline in new-issue volume and by the increase in purchases by fire, casualty, and marine insurance companies, which were seeking tax-exempt income.

Corporate nonfinancial businesses also benefited from the rising pace of economic activity in 1972. The general improvement in earnings, the increase in capital consumption allowances under the Asset Depreciation Range guidelines, and the slower-than-usual growth in dividend payouts resulting from restraints applied by the Committee on Interest and Dividends as part of the Phase II controls program all contributed to a substantial rise in the availability of internal funds of corporations. Furthermore, like State and local governments, corporations had engaged in record amounts of long-term financing late in 1970 and in 1971, and in that way they had restructured their balance sheets and improved liquidity positions in the aggregate.

Corporations needed larger amounts of funds in 1972 because of rising outlays for plant and equipment and growing needs for working capital. However, they reduced their dependence on securities markets by financing a larger proportion of their needs with internally generated funds, bank loans, and mortgages. Public offerings of bonds by corporations dropped significantly, the drop more than offsetting a slight increase in private bond placements and equity offerings. The decline in capital market financings was particularly evident for manufacturing corporations. Public utilities continued to rely on the securities markets to meet their needs for growth and modernization, and they utilized equity capital to a larger extent than usual. Financial firms continued to enter the long-term bond markets in large numbers in 1972, in order to improve their capital positions and to prepare for the task of financing the growing short-term credit needs of the economy.

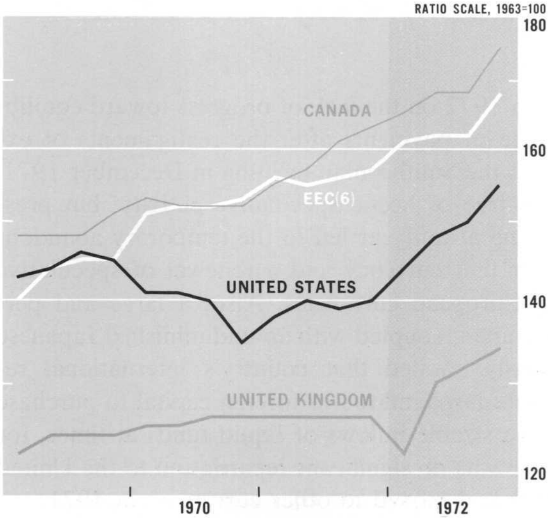
U.S. Balance of Payments

Attention was focused in 1972 on the lack of progress toward equilibrium in the U.S. balance of payments after the realignments of exchange rates agreed to at the Smithsonian meeting in December 1971. The year was relatively free of hectic speculative activity, but pressure on the pound sterling at midyear led to the temporary abandonment of a fixed rate for that currency and a renewal of speculative flows into some other European currencies. Also, a large and persistent flow of funds to Japan, coupled with an undiminished Japanese trade surplus, enormously swelled that country's international reserves. Though there were large inflows of foreign capital to purchase U.S. securities, and some sizable inflows of liquid funds at times, for the year as a whole there was no significant repatriation to the United States of the capital that had moved to other currencies in 1971.

The failure of such a return flow to materialize reflected in part the relatively higher levels of interest rates abroad, especially in the early months of the year, and in part the continuing uncertainty about the eventual effects upon U.S. exports and imports of the exchange-rate changes of 1971. After early 1972, exchange rates against the dollar of the currencies of most industrial countries remained above their central rates or parities, and many countries adopted controls or various types of special reserve requirements or other barriers to protect them from large inflows of foreign capital.

Soon after the end of 1972 exchange markets became increasingly unsettled, as the extent and persistence of the large U.S. deficit and the counterpart surpluses of some other countries were more clearly perceived. Speculation against the dollar in favor of other currencies, primarily the German mark and the Japanese yen, rose dramatically in late January and early February of 1973. In the light of these conditions, and because of the need to achieve a speedier adjustment of the underlying imbalance in U.S. international transactions, the President announced on February 12 that he would request Congress to authorize a devaluation of the dollar by 10 per cent. This step was taken in consultation with other countries and in the expectation that its effects on the exchange rates for the dollar in terms of the cur-

20. INDUSTRIAL PRODUCTION



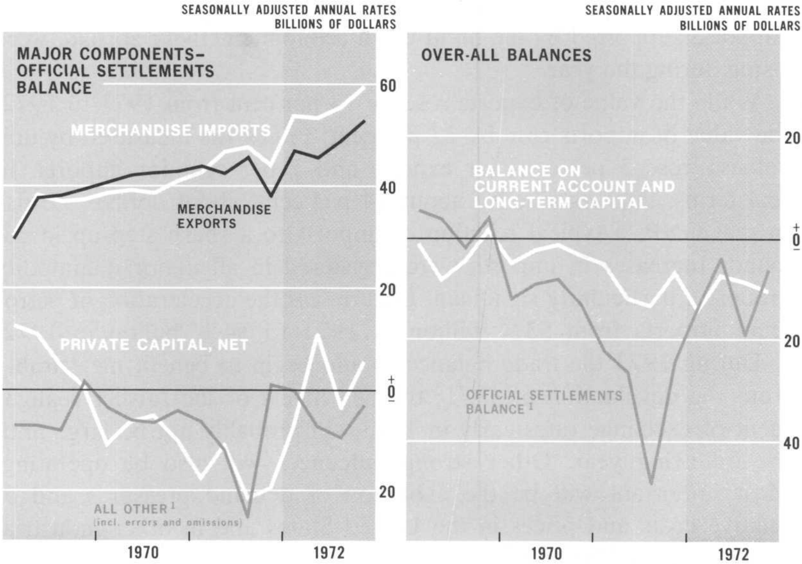
NOTE.—Seasonally adjusted quarterly data from the Organization for Economic Cooperation and Development. Data for fourth quarter of 1972 partly estimated.

rencies of other industrial countries would in general not be neutralized by other par-value changes. The Japanese yen was allowed to float, and it quickly appreciated by about 16 per cent relative to the U.S. dollar.

In the course of 1972 economic activity rose in most industrial countries but lagged somewhat behind the upswing in the U.S. economy. In a number of European countries price inflation was accelerating early in the cyclical advance. Monetary restraint was commonly adopted as a countermeasure, and several countries moved to offset interest-induced inflows of funds through special controls or reserve requirements. In the United States also, short-term interest rates were rising, as demand in most sectors of the private economy strengthened rapidly.

A large over-all deficit was registered in the U.S. balance of payments in 1972, but it was not swollen by an enormous net outflow of capital as had happened the year before. In terms of official settlements, the deficit for the year was $10.8 billion (apart from SDR allocations) compared with more than $30 billion in 1971. The balance on current account and long-term capital (the so-called basic balance) probably registered a deficit somewhat greater than the $9.3 billion deficit of 1971. There were divergent swings in the current-account and capital-account components of the basic balance: The balance on goods and services worsened by about $5 billion in 1972, to a deficit of about $4.5 billion, while net long-term capital flows probably improved by a somewhat smaller amount.

21. U.S. BALANCE OF PAYMENTS



[1] Excludes SDR allocations.

GOODS AND SERVICES

A number of factors combined to push the U.S. trade balance to a deficit of $6.8 billion in 1972—about $4 billion larger than the one in 1971. The major influence was the rapid rise of economic activity here in advance of similar developments abroad. In addition, prices of U.S. imports rose sharply, responding to both the devaluation and the general increase in world prices, while export prices in terms of dollars increased much less. These changes in relative prices were only just beginning in 1972 to yield the reallocations of production and consumption patterns necessary to halt the worsening trend in the U.S. trade balance that had been developing since 1965.

The strongest feature of U.S. export performance in 1972 was the rise in shipments of agricultural products—from $7.8 billion in 1971 to a total of $9.5 billion. By the last quarter of 1972 such shipments were at an annual rate of $11 billion, reflecting the shortage of these commodities in Russia and other countries and a very rapid rise in their prices. Sales of agricultural products in 1973 are expected to continue at a very high rate. Exports of machinery and industrial supplies, supported by the build-up in economic activity abroad, were rising during the year.

While the value of exports rose by 14 per cent from 1971 to 1972, the value of imports rose by 22 per cent. Prices (as measured by unit values) rose 3 per cent for exports and 7 per cent for imports. In real terms, imports rose by about 14 per cent, about double the rise in real GNP, a typical reaction of imports to a sharp step-up in demand. Increases in imports were registered in all major commodity groups; a particularly significant feature was the acceleration of petroleum imports from $3¾ billion in 1971 to $4¾ billion in 1972.

During 1973 the trade balance should begin to benefit measurably from the devaluation of 1971; the net effects of the further realignment of exchange rates early in 1973 will probably not be large until the following year. Other strong influences will also be operating. Most important will be the evolution of demand pressures and of relative costs and prices in the United States and in other industrial countries. This factor will be helpful if this country can continue to moderate inflationary pressures, and if other countries move steadily toward reasonably full utilization of their productive capacity. The United States will also need to compete more effectively for the trade of nonindustrial countries, many of which will be able to increase their imports in 1973 on the strength of their reserve gains in recent years and of a continuing rise in demand for their exports.

There was some reduction in the surplus in the nontrade elements of the U.S. current account in 1972. Part of this resulted from smaller net receipts of investment income, as interest payments to foreigners —mainly interest paid to foreign official holders of claims against the United States—rose faster than receipts from U.S. direct investments abroad. There was also an increase in net U.S. military expenditures as military sales fell off.

CAPITAL FLOWS

In 1972 the net outflow of long-term private capital from the United States was probably less than $1 billion—a striking shift from the recorded net outflow of more than $4 billion in 1971. One change between the two years was in direct-investment outflows, which apparently declined from their record high in 1971. A striking feature of developments in 1972 was the upsurge in foreign purchases of U.S. corporate securities. For the year as a whole such purchases totaled some $4.5 billion, including $2.4 billion of corporate stocks purchased in U.S. markets, of which $1 billion came in the fourth quarter, and $2 billion of debt issues offered by U.S. corporations in foreign markets, mainly to finance direct investments abroad.

Net outflows of U.S. Government grants and credits were somewhat less in 1972 than in 1971, but they were rising at the year-end and they will probably be considerably larger in 1973.

Table 11: U.S. BALANCE OF PAYMENTS
In billions of dollars, seasonally adjusted

Item	1971	1972 [e]	1972			
			I	II	III	IV [e]
Merchandise trade balance	−2.7	−6.8	−1.7	−1.9	−1.6	−1.6
Exports	42.8	48.8	11.8	11.4	12.3	13.3
Imports	45.5	55.7	13.5	13.4	13.9	14.9
Services, remittances, pensions, net	1.9	.8	.1	−.0	.3	.3
U.S. Govt. grants and credit, net	−4.4	−3.6	−.9	−.6	−.8	−1.2
Long-term private capital, net	−4.0	−.6	−1.0	.8	−.1	−.1
Balance on current account and long-term capital	−9.3	−10.2	−3.6	−1.8	−2.2	−2.6
Nonliquid short-term private capital, net	−2.4	−1.5	−.5	.6	−.5	−1.0
Errors and omissions	−11.0	−2.8	.8	−1.1	−1.9	−.6
Liquid private capital, net	−7.8	3.7	−.1	1.4	−.2	2.6
Of which: Liabilities to foreign commercial banks	−6.9	3.9	.5	1.0	.3	2.1
Official settlement balance (excluding SDR allocations)	−30.5	−10.8	−3.4	−1.0	−4.8	−1.6

[e] Fourth-quarter data partly estimated.
NOTE.—Dept. of Commerce data with some F.R. estimates. Details may not add to totals because of rounding.

Recorded flows of private short-term capital in 1972 were inward, on balance, in contrast to a net outflow of more than $10 billion in 1971. Whereas in 1971 there had been an outflow of nearly $7 billion to commerical banks abroad when U.S. banks repaid all but a relatively small part of their borrowings in the Euro-dollar market, in 1972 there was a sizable inflow as the U.S. agencies and branches of foreign banks brought in short-term funds from abroad. (The agencies and branches of foreign banks are not subject to the same reserve requirements on their liabilities to foreigners as are banks that are members of the Federal Reserve System).

Large swings in the "errors and omissions" item in the accounts provide a crude indicator of flows of funds in response to speculative pressures. Apart from such flows this balancing item is usually negative, and its normal level in recent years has been around $1 billion. According to early estimates, the balancing item in 1972 was larger than normal, but far smaller than the $11 billion figure for 1971, most of which had represented capital outflows through unrecorded hedging and through leads and lags in commercial payments.

Part 2

Records, Operations, and Organization

Record of Policy Actions of the Board of Governors

JANUARY 4, 1972

AMENDMENTS TO RULES REGARDING DELEGATION OF AUTHORITY

Effective with respect to applications received by the Reserve Banks after January 21, 1972, the Board amended its Rules Regarding Delegation of Authority to expand the authority of the Federal Reserve Banks to approve certain applications by bank holding companies to acquire shares of a bank.

> Votes for this action: Messrs. Burns, Robertson, Mitchell, Daane, Maisel, and Brimmer. Votes against this action: None.[1]

In August 1971 the Board had delegated to the Reserve Banks substantial authority to approve the formation of one-bank holding companies and had dispensed with the publication of an order and statement in cases approved by a Reserve Bank.

In light of experience and in a further effort to expedite handling of the volume of applications received under the Bank Holding Company Act, as amended, the Board now delegated to the Federal Reserve Banks the authority to approve (1) the acquisition by a bank holding company of additional shares in a subsidiary bank to the extent that the shares were acquired through the exercise of rights received as a bank shareholder, and (2) the acquisition by a registered bank holding company of a controlling interest in the shares of a newly formed bank if no objection to the proposed acquisition was made by the bank's supervisory authority, if no new significant policy issue was raised by the Board proposal, and if the Reserve Bank determined (a) that the general condition of the holding company and its bank subsidiaries was satisfactory, (b) that the holding com-

[1] There was one vacancy on the Board at the time this meeting was held.

pany had a proven record of furnishing needed special services, management, capital funds, and general guidance to its subsidiary banks, or had the potential to provide these services in the case of a relatively new holding company, and (c) that bank subsidiaries of the holding company did not hold more than 20 per cent of the total commercial bank deposits in the relevant market area and that the holding company was not one of the dominant banking organizations in the State.

The Board's action also made clear that the delegation in August 1971 to Reserve Banks of authority to approve the formation of a one-bank holding company included the authority to approve merger and Federal Reserve membership applications incidental to such formations.

JANUARY 20, 1972

AMENDMENT TO REGULATION Y, BANK HOLDING COMPANIES

Effective February 1, 1972, the Board amended Regulation Y to permit bank holding companies to act as investment advisers to investment companies, including mutual funds.

> Votes for this action: Messrs. Burns, Robertson, Mitchell, Daane, Maisel, and Sheehan. Vote against this action in part: Mr. Brimmer.

In May 1971 the Board made its initial determination with respect to activities so closely related to banking or managing or controlling banks as to be permissible for bank holding companies under the 1970 amendments to the Bank Holding Company Act. One of those permissible activities was acting as investment or financial adviser, including serving as the advisory company for a mortgage or a real estate investment trust and furnishing economic or financial information. At that time the Board indicated that acting as investment adviser to an open-end investment company was not regarded by the Board as within the description of the approved activity, but that it was considering whether to propose expanding such activity to include acting in that capacity. In August 1971 the Board published a notice of proposed rulemaking that would expand the activities of an investment or financial adviser to permit serving in that capacity to an investment company registered under the Investment Company Act of 1940.

On the basis of a hearing subsequently held and in light of other comments received, the Board determined that bank holding companies might provide investment advisory services to open-end and/or closed-end companies. The amendment to Regulation Y now adopted added to the list of permissible activities that of serving as investment adviser, as defined in Section 2(a)(20) of the Investment Company Act of 1940, to an investment company registered under that Act.

In the course of the deliberations several questions were raised as to the scope of the activity permitted, particularly in view of certain restrictions imposed by pertinent sections of the Banking Act of 1933 (Glass-Steagall Act provisions) and by the United States Supreme Court's decision in *Investment Company Institute* v. *Camp*. The scope of the approved activity was spelled out in a published interpretation in which the Board concluded that a bank holding company might exercise all functions customarily permitted an investment adviser except to the extent limited by the Banking Act of 1933.

The Board interpreted the Glass-Steagall Act as prohibiting a bank holding company from sponsoring, organizing, or controlling a mutual fund. However, the Board did not believe that this restriction applied to closed-end investment companies so long as they were not primarily or frequently engaged in the issuance, sale, and distribution of securities.

The Board also stated that a holding company engaging in the approved activity might not, among other things, (1) sell or distribute securities of any investment company for which it acted as investment adviser; (2) act as investment adviser to an investment company that had a name similar to the name of the holding company or any of its subsidiary banks; or (3) purchase for its own account securities of any investment company for which it acted as investment adviser; purchase, at its sole discretion, any such securities in a fiduciary capacity; extend credit to any such investment company; or accept the securities of any such investment company as collateral for a loan to purchase securities of the investment company.

Governor Brimmer dissented from that portion of the action relating to open-end investment companies because of conflict-of-interest implications. It was his view that it would be difficult to maintain complete separation between the investment advisory activities of a bank holding company and the sales and promotional activities involved in the distribution of shares of the open-end investment trust.

JANUARY 31, 1972

GUIDELINES FOR IMPROVING THE PAYMENTS MECHANISM

The Board authorized the issuance of guidelines for use by the Federal Reserve System throughout the Nation in establishing regional centers for overnight processing and settlement of checks.

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

On June 17, 1971, the Board had issued a statement of policy that reflected the Federal Reserve System's sense of urgency in modernizing the system for making financial payments throughout the United States. The changes suggested were essentially transitional steps looking toward the eventual replacement of checks in large part by electronic transfers of funds. Among the improvements in the national means of making payments to which the Board gave high priority were the extension of present clearing arrangements in cities with Federal Reserve offices into larger zones of immediate payment and the establishment of new regional clearing facilities in other areas of the country. In both cases, settlements would be made in immediately available funds.

The guidelines now issued were in furtherance of these stated objectives. Specifically, the guidelines gave basic directions to the Reserve Banks for the establishment and operation of Regional Check Processing Centers in communities where trade, business, and financial activities were substantially related and where check volume warranted upgrading of check-handling facilities. New Federal Reserve regional clearing centers were to be opened only in areas not presently served on an immediate-payment basis by existing Federal Reserve offices, and where check volume and the absence of alternative facilities made additional Federal Reserve service essential. The new system would make maximum use, consistent with improved service to the public, of check-processing centers operated by commercial banks or nonbank agents. It was contemplated that the new system would become operative region by region as soon as practicable, and that clearing arrangements would cross State or Federal Reserve district boundaries.

MARCH 9, 1972

AMENDMENT TO FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES

Effective immediately, the Board amended the guidelines covering foreign credits and investments by U.S. banks and other financial institutions to prevent subsidiary banks in a holding company from consolidating a newly acquired lending ceiling with ceilings of other banks in the same holding company.

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

Consolidation of ceilings among holding company members had been permissible if only one of the banks in question had a ceiling on November 11, 1971, when the guidelines were last revised. The modification now adopted was designed to safeguard the express intention of the Board to make ceilings available to banks that wanted to enter, and actively engage in, the foreign lending field. If ceilings designed to allow banks to develop directly a foreign lending business were to become available to banks already established in that business, the purpose of the ceilings would be lost, and their use could lead to an unintended expansion of aggregate foreign lending by U.S. banks presently in the business.

APRIL 11, 1972

AMENDMENTS TO MARGIN REGULATIONS

Effective May 15, 1972, the Board amended 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 incorporate requirements for the continued inclusion of a stock on the list of over-the-counter (OTC) margin stocks.

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

In the amendments, the Board set forth the criteria that over-the-counter stocks must continue to meet in order to remain on the list of OTC margin stocks (which are subject to the Board's margin requirements concerning securities credit transactions). The criteria adopted for continued listing were substantially the same as those published for comment earlier in the year. Stocks that appear on the list have not been approved, in any way, by the Board and are included only on the basis of meeting and continuing to meet prescribed criteria.

APRIL 26, 1972

REGULATION Y, BANK HOLDING COMPANIES

The Board issued an interpretation relating to its previous determinations that the following five activities were not so closely related to banking or managing or controlling banks as to be a proper incident thereto under Section 4(c)(8) of the Bank Holding Company Act: (1) equity funding; (2) underwriting life insurance that is not sold in connection with a credit transaction by a bank holding company, or a subsidiary thereof; (3) real estate brokerage; (4) land development; (5) real estate syndication. The principal purpose of the interpretation was to provide a central place where interested persons could readily find a list of activities that the Board, in considering individual applications, had determined to be nonpermissible for bank holding companies.

(1) *Equity funding*

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

On November 9, 1971, the Board adopted the position that there was no reasonable basis for a determination that equity funding (the financing of sales of mutual fund shares and life insurance policies as a package) was so closely related to banking as to be a proper incident thereto. The affiliation of a bank with an equity-funding company would violate the congressional policy embodied in the Glass-Steagall Act of divorcing commercial and investment banking and could give rise to potential conflicts of interest and unsound banking practices. The term "equity funding" was subsequently changed to "insurance premium funding."

(2) *Underwriting life insurance*

> Votes for this action: Messrs. Burns, Robertson, Mitchell, Daane, Maisel, and Brimmer. Votes against this action: None.[1]

On December 16, 1971, the Board took the position that there was no reasonable basis for a determination that underwriting general life insurance was closely related to banking. In reaching this conclusion the Board took into account (a) the record of the hearing and the written comments received on the proposal (published for comment in January 1971) to include as a permissible activity acting as insurer either for the holding company and its subsidiaries or with respect to insurance sold by the holding company or any of its subsidiaries as agent or broker, and (b) considerations in its 1957 denial of the application of Transamerica Corporation to retain Occidental Life Insurance Company of California.

---

[1] There was one vacancy on the Board between Nov. 15, 1971, and Jan. 4, 1972.

(3) *Real estate brokerage*

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

On March 23, 1972, the Board concluded that there was no reasonable basis for determining that real estate brokerage was a permissible activity for bank holding companies under Section 4(c)(8). In reaching this determination, the Board noted that many banks have traditionally performed real estate brokerage services for their fiduciary accounts, but it concluded that since trust departments often perform varied commercial functions for their trust customers, this in itself would not provide a sufficient basis for a determination that such activity was closely related to banking. Further, it did not appear to the Board that any net benefit would result to the public from the performance of this activity by bank holding companies.

(4) *Land development*

> Votes for this action: Messrs. Burns, Robertson, and Brimmer. Votes against this action: Messrs. Mitchell and Sheehan. Absent and not voting: Messrs. Daane and Maisel.

On March 28, 1972, the Board determined that there was no reasonable basis for a determination that land development was permissible under Section 4(c)(8) as an activity closely related to banking, principally because land development could not be considered as an incidental activity to commercial banking and because entry into this field by bank holding companies might result in unsound banking practices and other adverse effects that are not outweighed by benefits to the public.

Messrs. Mitchell and Sheehan dissented because they would have preferred that a proposal to include land development as a permissible activity be published for public comment before Board action was taken, although they concurred in general with the reasons underlying the Board's action.

(5) ***Real estate syndication***

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

On April 4, 1972, the Board concluded that real estate syndicate activities, which would include organizing, promoting, selling partnership interests, and acting as the sole general partner of a real estate syndication, were not closely related to banking and should not be considered as permissible. It was also the Board's view that real estate syndication activities would be inconsistent with the policies of the Glass-Steagall Act inasmuch as a holding company subsidiary would be actively engaged, on a continuing basis, in selling interests in numerous real estate syndications. There would be no demonstrable benefits to the public from permitting bank holding companies to engage in this activity that would outweigh conflict-of-interest considerations arising from the sale of limited partnership interests.

Governor Mitchell dissented from the action on the grounds that if the general partnership feature were removed, denial would be inconsistent with Board positions in the closed-end mutual fund and real estate investment trust areas.

In September 1972 the interpretation was expanded to include management consulting, property management, and operation of savings and loan associations as activities not permissible for bank holding companies under Section 4(c)(8). These three activities are covered in separate policy actions.

MAY 30, 1972

REGULATION Y, BANK HOLDING COMPANIES

The Board authorized issuance of an interpretation of Regulation Y outlining the types of investments that bank holding companies may make in projects designed primarily to promote community welfare.

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

"Making equity and debt investments in corporations or projects designed primarily to promote community welfare, such as the economic rehabilitation and development of low-income areas" was included in the initial listing of activities determined by the Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto under the Bank Holding Company Act, as amended.

In the interpretation now issued, the Board emphasized its intent to enable bank holding companies to take an active role in helping to promote community welfare. Within the category of permissible investments outlined by the Board were (1) low- and moderate-income housing projects and (2) projects designed explicitly to create improved job opportunities for low- or moderate-income groups. Although the interpretation focused primarily on low- and moderate-income housing, the Board made it clear that the interpretation was not intended to limit projects to that area. Other investments designed primarily to promote community welfare were considered permissible but were not defined, in order to provide bank holding companies flexibility in approaching community problems. However, the permitted activity was not intended to provide a vehicle for bank holding company entry into general commercial activity, which is prohibited by the Bank Holding Company Act, and the Board indicated that applications would be carefully reviewed to assure compliance with the desired objectives.

JUNE 5, 1972

AMENDMENT TO REGULATION Y, BANK HOLDING COMPANIES

Effective June 6, 1972, the Board amended Regulation Y for the purpose of clarifying the scope of investment advisory activity permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act.

Votes for this action: Messrs. Burns, Robertson, Mitchell, Daane, and Sheehan. Votes against this action: None. Absent and not voting: Mr. Brimmer.[1]

The Board included "acting as investment or financial adviser" in its initial listing adopted in May 1971 of activities so closely related to banking or managing or controlling banks as to be permissible for bank holding companies under the Bank Holding Company Act, as amended. In the amendment now adopted, the Board defined in more precise terms its intent to permit bank holding companies to act as investment or financial adviser only to the extent of (1) serving as the advisory company for a mortgage or a real estate investment trust; (2) serving as investment adviser, as defined in Section 2(a)(20) of the Investment Company Act of 1940, to an investment company registered under that Act; (3) providing portfolio investment advice to any other person; (4) furnishing general economic information and advice, general economic statistical forecasting services, and industry studies (as contrasted with management consulting); and (5) providing financial advice to State and local governments, such as with respect to the issuance of their securities.

In a related action taken on May 18, 1972, the Board determined that "management consulting" was not an activity that was so closely related to banking or managing or controlling banks as to be a proper incident thereto.

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

The Board viewed management consulting as including, but not limited to, the provision of analysis or advice as to a firm's (1) purchasing operations, such as inventory control, sources of supply, and cost minimization subject to constraints; (2) production operations, such as quality control, work measurement, product methods, scheduling shifts, time and motion studies, and safety standards; (3)

[1] There was one vacancy on the Board at the time this meeting was held.

marketing operations, such as market testing, advertising programs, market development, packaging, and brand development; (4) planning operations, such as demand and cost projections, plant location, program planning, corporate acquisitions and mergers, and determination of long-term and short-term goals; (5) personnel operations, such as recruitment, training, incentive programs, employee compensation, and management-personnel relations; (6) internal operations, such as taxes, corporate organization, budgeting systems, budget control, data-processing-systems evaluation, and efficiency evaluation; or (7) research operations, such as product development, basic research, and product design and innovation. This view was incorporated by footnote into the amendment to Regulation Y that was adopted on June 5, 1972, as were certain other explanatory or technical changes.

At the time of the initial determination with respect to the permissibility of the investment or financial adviser activity, the Board had indicated that it was considering whether to propose expanding the activity to include management consulting. The Board now reached the conclusion that the public benefits—such as increased convenience and efficiency of operation—that might be expected to result from holding company entry into the management-consulting field would not outweigh potential adverse effects, the most serious of which would be possible conflict of interest. It was the Board's view that circumstances might conspire to make the objective, independent point of view—which the management consultant purports to offer—difficult to maintain. In addition, to permit bank holding companies to engage in the business of advising commercial enterprise would, in the Board's judgment, represent an extension of banking influence into the realm of commerce in contravention of congressional purpose to maintain separation between banking and commerce.

JUNE 20, 1972

AMENDMENTS TO REGULATION D, RESERVES OF MEMBER BANKS, AND REGULATION J, COLLECTION OF CHECKS AND OTHER ITEMS BY FEDERAL RESERVE BANKS

Effective in two steps in late September and early October 1972, the Board amended Regulation D so as to apply the same reserve requirements to member banks of like size, regardless of the bank's location.

Also, the Board amended Regulation J, effective September 21, to require all banks served by the Federal Reserve check-collection system to pay—in immediately available funds—for checks drawn on them on the same day the checks are presented for payment by the Federal Reserve.

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

In March 1972 the Board had published in the Federal Register for comment proposed changes in Regulations D and J designed to make reserve requirements of member banks and Federal Reserve check-collection procedures more equitable and more efficient. According to the proposals all banks, city and country, member and nonmember, would be placed on the same basis with regard to Federal Reserve check collection, and member banks of equal size would be subject to equal reserve requirements. The proposed revision of Regulation J represented a further step in the effort fostered by the Federal Reserve, in cooperation with the commercial banking system, to modernize the Nation's check-collection system.

It was expected that a total release of about $3.5 billion from the restructuring of reserves through the amendment of Regulation D would be partially absorbed by the immediate reduction in float of $2 billion resulting from the change in Regulation J. This amount of float would result from the present practice whereby so-called country banks pay checks presented by the Federal Reserve in funds that are not available for use until the next business day following presentment of the checks for payment.

As a result of these regulatory changes it was expected that about $1.5 billion of reserves would be released. However, it was intended that Federal Reserve open market operations would be adapted, as needed, to neutralize the effects of the release of reserves on monetary policy.

Previously, reserve requirements for member banks had been dependent on whether a bank was located within or outside a reserve city. Under the amendment to Regulation D now adopted, the reserve requirements on net demand deposits were restructured solely on the basis of the amount of such deposits held by a member bank, without regard to its location, and the ratios established for the various portions of a bank's deposits were as follows:

Amount of net demand deposits (in millions of dollars)	*Reserve percentage applicable*
2 or less	8
2–10	10
10–100	12
100–400	13
Over 400	17½

The new reserve ratios were to become effective in two steps. During the period September 21–27, the first three ratios would be applied to net demand deposits of $100 million and less. In addition the 17½ per cent ratio formerly applied to demand deposits between $100 million and $400 million for reserve city banks would be reduced as a first step to 16½ per cent. During the period September 28–October 4 this latter ratio would be reduced further to 13 per cent. The purpose of phasing in the new reserve structure was to avoid any unduly large release of reserves at any given point in time.

In its deliberations, the Board gave careful attention to situations where a bank's funds available for investment would be significantly reduced by the new check-collection procedures. To alleviate such situations, Federal Reserve Banks were authorized to grant temporary waivers for periods up to 21 months of penalties on certain deficiencies in member bank reserves attributable to the changes in Regulations D and J. In addition, the Board subsequently issued guidelines that the Reserve Banks were to follow in providing credit to nonmember banks in the event that the new check-collection rules resulted in a significant impairment of the liquidity of a nonmember bank or in the impairment of the bank's ability to serve its community.

The Board recognized that changes in the regulations, as now adopted, and that early activation of plans for Systemwide Regional Check Processing Centers could effectively lessen the investable funds of some banks. Within the context of improving services, the Board indicated that one of its highest priorities was to accelerate the development of Regional Check Processing Centers.

In September 1972—prior to the dates on which the amendments were scheduled to become applicable—the effective dates of the amendments to Regulations D and J were postponed because a temporary restraining order by the U.S. District Court for the District of Columbia had been issued on a petition filed by the Independent Bankers Association of America and the Western Independent

Bankers. Strict compliance with the court's order would have restrained implementation only as to a limited group of banks and only with respect to Regulation J. However, in view of the adverse effect on the payments mechanism if implementation of the Regulation J proposals were fragmented, and considering the adverse impact on monetary policy should the reserve requirement adjustment under Regulation D be put into effect without the accompanying changes in Regulation J, the Board postponed the effective dates of both regulatory amendments pending judicial determination and subsequent Board action.

On October 19, 1972, the U.S. District Court for the District of Columbia denied a motion for a preliminary injunction sought by the plaintiffs on the ground that the plaintiffs had failed to carry the burden of establishing (1) that they would be irreparably injured if the amendments to Regulation J were put into effect and (2) that they would be likely to succeed on the merits of the case after full trial. This decision was consistent with the decision rendered on October 10, 1972, by the U.S. District Court for the Central District of California in an action brought by a group of California banks seeking to enjoin full implementation of the Board's Regulation J; the latter court decision on a motion for preliminary injunction was based on these same grounds.

Following these court determinations, the Board decided that the changes in Regulation J would take effect on November 9 and that those in Regulation D would take effect in two steps beginning on that date. The amendments to Regulation D that had been scheduled to be effective for the period September 21–27, 1972, would be effective for the period November 9–15, 1972, and the amendments that had been scheduled to become effective on September 28, 1972, would become effective November 16, 1972.

JUNE 29, 1972

REGULATION Y, BANK HOLDING COMPANIES

The Board determined that property management services are not so closely related to banking or managing or controlling banks as to be permissible activities for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, as amended.

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

In September 1971 the Board had published for comment a proposal to amend Regulation Y so as to permit bank holding companies to perform property management services, which the Board defined as encompassing farm management, the management of office buildings and other business or industrial properties, the management of residences ranging from single-family dwellings to high-rise apartment buildings, and the management of the air rights above—or the oil and mineral rights below—a particular parcel of land.

On the basis of the record of a hearing subsequently held and of written comments received, the Board concluded that property management services were not closely related to banking or managing or controlling banks; moreover, it was the Board's view that possible benefits to the public from adoption of the proposal, such as greater convenience, increased competition, or gains in efficiency, were outweighed by possible adverse effects, such as unfair competition, conflicts of interests, and unsound banking practices. Accordingly, the Board withdrew the September 14, 1971 proposal.

This action was not intended to limit the authority presently conferred by statute or regulation on bank holding companies and their subsidiaries to engage in certain property management activities. The Board specifically pointed out that bank holding companies and their subsidiaries might continue to engage in property management activities with respect to the following: (1) properties held in fiduciary capacity; (2) properties owned by the holding company or its subsidiaries for conducting its own bank and bank-related operations; and (3) properties acquired by the holding company or a subsidiary as a result of a default on a loan.

JULY 12, 1972

AMENDMENTS TO MARGIN REGULATIONS

Effective September 18, 1972, the Board adopted amendments 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, designed to improve the quality of stock market credit.

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

Under the amendments, use of the "same-day substitution" rule would be ended in accounts where the debt, adjusted as defined in the regulations, was more than 60 per cent of the market value of the stock collateral in the account. The same-day-substitution rule permits customers, without regard to margin requirements, to substitute one security for another in their accounts through offsetting purchases and sales made on the same day. The change was designed to strengthen the equity position of low-margin accounts when offsetting sales and purchases of collateral were made on the same day.

The basic amendment had originally been published for comment on April 28, 1972, and it was subsequently modified on the basis of industry comment with respect to the manner of calculating the status of margin accounts.

Regulation T was also amended to permit short sales of stock into which bonds were convertible to be made in the special convertible debt security account if the bonds were held in the account. This technical amendment, which had been published for comment in July 1971 but had not been acted upon, was now adopted in light of industry comment.

JULY 25, 1972

AMENDMENT TO REGULATION T, CREDIT BY BROKERS AND DEALERS

Effective September 5, 1972, the Board amended Regulation T with respect to credit for the combined acquisition of mutual fund shares and insurance.

> Votes for this action: Messrs. Burns, Robertson, Daane, and Sheehan. Votes against this action: None. Absent and not voting: Messrs. Mitchell, Brimmer, and Bucher.

The amendment eliminated the requirement that in order to be eligible for the provisions relating to "special insurance premium funding account," which designation was changed from "special equity funding account," a creditor must be the issuer, or a subsidiary or affiliate of the issuer, of programs that combine the acquisition of mutual fund shares and insurance. Also, the amendment clarified that creditors who arrange credit for the acquisition of mutual fund shares and insurance would be permitted to sell mutual fund shares without insurance under the provisions of the section relating to special cash accounts.

AUGUST 3, 1972

REGULATION Y, BANK HOLDING COMPANIES

The Board decided that at the present time, in the absence of further congressional guidance, the operation of savings and loan associations was not a permissible activity for bank holding companies.

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

In May 1971 the Board had implemented its regulatory authority with respect to nonbanking activities of bank holding companies under Section 4(c)(8) of the Bank Holding Company Act by amending Regulation Y so as to list the activities initially found by the Board to be so closely related to banking or managing or controlling banks as to be permissible for bank holding companies. At that time the Board had announced that the operation of a savings and loan association was not included within the scope of authorized activities for bank holding companies but that it was considering whether to expand the list to include such activity.

In reaching its present decision not to include the operation of savings and loan associations on its list of permissible activities, the Board noted that Congress had created a statutory framework for savings and loan associations that was separate from the statutes governing commercial banks. Under these statutes, different rules had been established for the two kinds of institutions on such matters as branching, taxation, and ceilings on rates paid to attract savings. A statute had also been enacted governing savings and loan holding companies, separate and distinct from the Bank Holding Company Act. This statutory pattern suggested past intent on the part of Congress to maintain savings and loan associations as specialized lenders to finance housing, with specialized rules appropriate to that role. It was the Board's view that acquisition of savings and loan associations by bank holding companies could tend to blur this congressionally established structure.

Proposals for affiliation of banks and savings and loan associations in a holding company system involved broad questions of public policy that, in the Board's opinion, should not be decided until Congress had had an opportunity to consider the matter. Suggestions for changes in rules governing specialized thrift institutions had been made by the President's Commission on Financial Structure and Regulation (the "Hunt Commission") as well as by others. It was expected that the next Congress would have occasion to consider thoroughly relationships between banks and savings and loan associations.

The action now taken did not affect previous Board decisions permitting affiliations of thrift institutions and commercial banks in Rhode Island, which decisions had been reached in light of the history of affiliation of mutual thrift institutions and commercial banks in Rhode Island as well as on the basis of a hearing held and comments received.

AUGUST 31, 1972

REGULATION Y, BANK HOLDING COMPANIES

The Board authorized the issuance of an interpretation of Regulation Y to clarify the nature of insurance activities previously found to be so closely related to banking or managing or controlling banks as to be permissible for bank holding companies.

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

Effective September 1, 1971, the Board had amended Regulation Y to specify certain types of insurance agency activities in which bank holding companies might engage under the 1970 amendments to the Bank Holding Company Act. In the course of administering this regulation, a number of questions had been raised concerning the scope and terms of the Board's regulation, and the interpretation was now issued to set forth some of the Board's views, as follows:

Insurance "for the holding company and its subsidiaries." The Board regards the sale of group insurance for the protection of employees of the holding company as insurance for the holding company and its subsidiaries.

Insurance "directly related to an extension of credit by a bank or a bank-related firm."

(1) This provision is designed to permit the sale, by a bank holding company system, of insurance that supports the lending transactions of a bank or bank-related firm in the holding company system. The Board regards the sale of insurance as directly related to an extension of credit by a bank or bank-related firm where (i) the insurance assures repayment of an extension of credit by the holding company system in the event of death or disability of the borrower (for example, credit life and credit accident and health insurance); or (ii) the insurance protects collateral in which the bank or bank-related firm has a security interest as a result of its extension of credit; or (iii) the insurance is other insurance which is sold to individual borrowers in conjunction with or as part of an insurance package (as a matter of general practice) with insurance protecting the collateral in which a bank or bank-related firm had a security interest as a result of its extension of credit. Examples that fall within (iii) above are: (a) liability insurance sold in conjunction with insurance relating to physical damage of an automobile when the purchase of such automobile is financed by a bank or bank-related firm; and (b) a homeowner's insurance policy with respect to a residence mortgaged to a bank or bank-related firm.

(2) Other types of insurance may be directly related to an extension of credit. A bank holding company applying to engage in the sale of such other types should furnish information showing that such insurance is so directly related.

(3) A renewal of insurance, after the credit extension has been repaid, is regarded as closely related to banking only to the extent that such renewal is permissible under Section 225.4 (a)(9)(ii)(c) of Regulation Y.

(4) The Board generally regards insurance protecting collateral where the security interest of a bank or bank-related firm was obtained by *purchase* rather than by a direct extension of credit by the holding company system as not being directly related to an extension of credit by a bank or bank-related firm. However, if such security interests are purchased on a continuing basis from a firm or an individual and the interval between the creation of the security interest and its subsequent purchase is minimal, the Board may regard such purchase as an extension of credit. Full details of the transactions should be provided to support a holding company's contention that such insurance sales are directly related to an extension of credit.

Insurance "directly related to the provision of other financial services by a bank or . . . bank-related firm." This provision is designed to permit the sale by a bank holding company system of insurance in connection with bank-related services (rendered by a member of the holding company system) other than an extension of credit. Among the types of insurance the Board regards as directly related to such services are: (i) insurance against loss of securities held for safekeeping; (ii) insurance for valuables in a safe deposit box; (iii) life insurance equal to the difference between the maturity value of a deposit plan for periodic deposits over a specified term and the balance in the account at the time of the depositor's death; (iv) in connection with mortgage loan servicing that is provided by a bank or bank-related firm, insurance on the mortgaged property and/or insurance on the mortgagor to the extent of the outstanding balance of the credit extension, provided that the mortgagee is a beneficiary under such types of insurance policies; and (v) insurance directly related to the provision of trust services if the sale of such insurance is permitted by the trust instruments and under State law.

Insurance that "is otherwise sold as a matter of convenience to the purchaser, so long as the premium income from sales within . . . subdivision (ii)(c) does not constitute a significant portion of the aggregate insurance premium income of the holding company from insurance sold pursuant to . . . subdivision (ii)."

(1) This provision is designed to permit the sale of insurance as a matter of convenience to the purchaser. It is not designed to permit entry into the general insurance agency business.

(2) The term "premium income" means gross commission income.

(3) The Board generally will regard premium income attributable to "convenience" sales as not constituting a "significant portion" if the income attributable to convenience sales is less than 5 per cent of the aggregate insurance premium income of the holding company system from insurance sold pursuant to Section 225.4(a)(9)(ii) of Regulation Y.

SEPTEMBER 7, 1972

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 October 16, 1972, the Board amended Regulations T and U so as to exempt from margin requirements certain credit extended to so-called "block positioners" and "third-market makers" and to apply new reporting requirements to exchange specialists.

> Votes for this action: Messrs. Burns, Mitchell, Brimmer, and Sheehan. Votes against this action: None. Absent and not voting: Messrs. Robertson, Daane, and Bucher.

The amendments exempted from margin requirements credit extended to block positioners and third-market makers. Block positioners are securities firms that stand ready to hold substantial blocks of stock for their own account to facilitate the sale or purchase by their customers—primarily institutions—of quantities of stock too large to be absorbed by normal exchange transactions. Third-market makers are firms that make off-exchange markets in stocks that are listed on exchanges.

The proposal had evolved over a period of time, and it reflected conclusions reached in light of assessment of economic and financial market conditions and of comments and suggestions made by representatives of the industry and by major exchanges on proposals previously issued. The amendments now adopted were modified slightly as to detail from the proposal published by the Board for comment in May 1972.

Under the amendments, the minimum block of stock that could qualify for the exemption from margin requirements must have a market value of $200,000. A block would also cease to be eligible for exemption credit if not sold by the block positioner within 20 business days, although limited extensions—no more than 5 days each—could be allowed by the stock exchanges or the National Association of Securities Dealers. Exchange specialists would be required to report transactions in blocks acquired on exempt credit.

The Board's amendments were adopted simultaneously with registration and reporting requirements imposed by the Securities and Exchange Commission pertaining to the same subjects.

SEPTEMBER 13, 1972

EXTENSION OF FEDERAL RESERVE BANK CREDIT TO NONMEMBER BANKS

The Board authorized the Federal Reserve Banks to extend credit to nonmember commercial banks for the purpose of mitigating any possible hardships that might temporarily be placed on such banks by implementation of the changes in Regulation J that were scheduled to become effective on September 21, 1972.[1]

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

---

[1] Implementation of the changes in Regulation J was delayed until Nov. 9, 1972, as noted on pp. 80 and 81.

The Board's authorization permitted the Reserve Banks to use either direct loans to nonmember banks or conduit loans through member banks. The Board indicated that the rate on a direct extension may not exceed the rate applicable to member banks under Sections 13 and 13a of the Federal Reserve Act, the lowest lending rate at any given Federal Reserve Bank, and that the rate to be paid by nonmember banks on an indirect extension of credit may not exceed the rate paid by the member bank plus a small additional charge to reflect the member bank's administrative costs and assumption of risk on the loan.

Mr. Brimmer dissented with respect to the use of a rate equal to the discount rate for credit under Sections 13 and 13a. He believed that a penalty rate should be established for both direct and conduit loans on the ground that any nonmember bank that used Federal Reserve credit should pay a higher rate than a member bank.

On September 18 the Board published guidelines for use by the Federal Reserve Banks in providing credit to nonmember banks in any instances where the changes in Regulation J resulted in a significant impairment of the liquidity of such banks or of their ability to serve their communities.

OCTOBER 26, 1972

AMENDMENT TO RULES REGARDING DELEGATION OF AUTHORITY

Effective with respect to applications received after October 30, 1972, the Board amended its Rules Regarding Delegation of Authority to incorporate revised guidelines for use of the Federal Reserve Banks acting under delegated authority in processing applications to form one-bank holding companies.

> Votes for this action: Messrs. Burns, Robertson, Mitchell, Daane, Brimmer, Sheehan, and Bucher.
> Votes against this action: None.

In August 1971 the Board had delegated to the Reserve Banks authority to approve applications for the formation of one-bank holding companies while retaining exclusive authority to deny such applications. At that time the Board had established standards to be used as guidelines by the Reserve Banks in approving applications under delegated authority. (Applications that did not meet those standards were to be forwarded to the Board for action.) The procedure had been designed to expedite the handling of applications to form one-bank holding companies.

Subsequently, various comments had been received to the effect that the guidelines were being applied in a manner more restrictive than was desirable and that the guidelines were having an unduly adverse effect upon the transferability of bank stock. On the basis of a public oral presentation before members of the Board and in light of other comments received, the Board issued revised guidelines and incorporated them into the Board's Rules Regarding Delegation of Authority. The guidelines covered such matters as the debt incurred by a holding company to acquire a bank and the requirement that an equal offer be made to all shareholders of a bank.

OCTOBER 31, 1972

AMENDMENT TO REGULATION Z, TRUTH IN LENDING

Effective November 6, 1972, the Board amended Supplement III to Regulation Z so as to exempt certain credit transactions in Wyoming from the disclosure and rescission provisions of the Federal Truth in Lending Act.

> Votes for this action: Messrs. Burns, Robertson, Mitchell, Daane, Brimmer, Sheehan, and Bucher. Votes against this action: None.

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 there is adequate provision for enforcement.

Inasmuch as the State of Wyoming had met these criteria, the Board granted that State an exemption from the Act applicable to all classes of credit transactions in the State except: transactions in which a Federally chartered institution is a creditor; consumer credit sales of insurance by an insurer in which the insurer is the creditor; consumer loan transactions in which a licensed pawnbroker is a creditor; and transactions in which a common carrier is a creditor. The Board earlier had granted similar exemptions from the Federal Act to Maine, Massachusetts, Oklahoma, and Connecticut.

NOVEMBER 2, 1972

AMENDMENTS TO REGULATION Z, TRUTH IN LENDING

Effective December 15, 1972, the Board adopted clarifying amendments to Regulation Z with regard to liability for unauthorized use of all credit cards. Effective June 1, 1973, the Board also amended Regulation Z with respect to disclosure requirements on billing statements.

> Votes for this action: Messrs. Burns, Robertson, Brimmer, Sheehan, and Bucher. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Daane.

Considerable uncertainty had prevailed in the credit-card field as to whether exemptions in the Truth in Lending Act and Regulation Z for extensions of credit for business or commercial purposes applied to restrictions on the unsolicited issuance of credit cards and to the limits on liability for their unauthorized use. The purpose of the amendments to become effective December 15 was to make clear that all credit cards—whether used for personal, family, household, agricultural, business, or commercial purposes—were covered by the maximum liability limit of $50 for unauthorized use and that they could be issued only upon the request of a prospective cardholder. These amendments do not affect the business exemption in its application to the disclosure, rescission, and advertising requirements.

The validity of these amendments has been challenged in a suit against the Board that was filed on December 14, 1972, in the U.S. District Court for the District of Columbia.

The technical amendments that are to become effective June 1, 1973, provide that: (1) disclosure of a nominal annual percentage rate on billing statements in open-end credit accounts will be required even though no finance charges are imposed during the billing cycle (many creditors have been making this disclosure, although previously not required under the regulation); (2) disclosure of minimum finance charges on billing statements will be required; and (3) two earlier interpretations dealing with computation of the annual percentage rate and disclosure of the balance on which it is computed will be incorporated into the regulation. The effective date of June 1, 1973, will allow time for those lenders and businesses that are affected by the amendments to reprint disclosure statements and to change their computer programming, if necessary, to take account of the changes in the regulation.

The amendments had previously been published for public comment and certain technical adjustments had been made on the basis of comments received.

The Board also issued an interpretation detailing the application of the regulation to open-end credit plans with variable-rate features.

NOVEMBER 7, 1972

AMENDMENTS TO FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES

Effective immediately, the Board adopted clarifying amendments to the guidelines covering foreign credits and investments by U.S. banks and U.S. nonbank financial institutions.

> Votes for this action: Messrs. Burns, Robertson, Brimmer, Sheehan, and Bucher. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Daane.

The amendments now adopted were essentially administrative in nature and were designed to be neutral with respect to capital outflows authorized under the voluntary foreign credit restraint program guidelines. The revisions did not affect the foreign lending and investment ceilings of banks and other financial institutions. One amendment extended to nonbank domestic subsidiaries of bank holding companies treatment already afforded to domestic subsidiaries of Edge Act corporations with regard to offsetting foreign assets by foreign borrowings. In amending the provision, the Board recognized that some banks now utilized domestic subsidiaries of their holding companies to make foreign investments in the same manner as banks had been using domestic subsidiaries of Edge Act corporations.

Other amendments incorporated into the foreign credit restraint program guidelines several technical and clarifying interpretations made by the Board since the November 1971 revision of the guidelines.

NOVEMBER 22, 1972

AMENDMENTS TO MARGIN REGULATIONS

Effective November 24, 1972, the Board increased the margin requirements from 55 per cent to 65 per cent for credit extended by brokers, dealers, banks, and other lenders to finance the purchase or carrying of stock and also increased the required deposit on short sales from 55 per cent to 65 per cent. In making the increases, 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. No changes were made in the 50 per cent margin requirements applicable to loans made for purchasing or carrying convertible bonds or in the 70 per cent retention requirement applicable to undermargined accounts. The latter requirement specifies the portion of the proceeds of a sale of securities that must be retained in a margin account if the equity in that account does not meet the margin requirements.

> Votes for this action: Messrs. Burns, Robertson, Mitchell, Daane, Sheehan, and Bucher. Vote against this action: Mr. Brimmer.

The action covered new extensions of credit by brokers and dealers (Regulation T) and credits 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. The change in margin requirements was the first since December 6, 1971, when they were reduced from 65 to 55 per cent.

In making the change, the Board acted under the authority granted in the Securities Exchange Act of 1934 to prevent excessive use of credit to finance securities transactions. The Board noted that margin debt had increased sharply over the past year. Such debt at brokers and dealers had risen about $3 billion since November 1971, and the amount outstanding at the end of October was $7.8 billion, a record level. At banks also, loans for the purpose of purchasing or carrying margin securities had increased by a relatively large amount since November 1971.

The Board also noted that recent behavior of the stock market suggested that margin credit, following a leveling off in late summer, was again in process of expanding and that further rapid increases in such credit could stimulate inflationary expectations.

Governor Brimmer dissented because he believed that the statistics actually available did not show any significant increase in stock market credit in recent months and thus did not justify an increase in margin requirements at this time. Instead, he would have preferred to wait for the figures on margin credit due in mid-December. In his opinion, changes in margin requirements should not be geared to the behavior of stock prices, but to the actual use of stock market credit to purchase or carry securities.

DECEMBER 1, 1972

AMENDMENT TO FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES

Effective immediately, the Board amended the voluntary foreign credit restraint program guidelines to exempt from the ceilings foreign assets acquired in connection with settlement of claims under insurance and guarantees of the U.S. Overseas Private Investment Corporation.

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

Prior to the adoption of this amendment, purchases of foreign assets acquired in the manner described above by U.S. banks and other U.S. financial institutions would have been subject to guideline ceilings, even though no new capital outflow would have resulted. Since the principal focus of the voluntary foreign credit restraint program was on measures that would reduce the outflow of U.S. capital, no useful purpose would have been served by continuing to subject such purchases to the guideline ceilings.

DECEMBER 11, 1972

AMENDMENT TO REGULATION Y, BANK HOLDING COMPANIES

Effective December 11, 1972, the Board amended Regulation Y to permit bank holding companies to engage in underwriting credit life and credit accident and health insurance that is directly related to extensions of credit by a bank holding company system.

> Votes for this action: Messrs. Burns, Robertson, Mitchell, Sheehan, and Bucher. Votes against this action: None. Absent and not voting: Messrs. Daane and Brimmer.

Certain types of insurance business were among the 10 activities originally proposed by the Board as closely related to banking when it announced plans in January 1971 to amend Regulation Y as a first step toward implementing the 1970 amendments to the Bank Holding Company Act. Following a hearing and in light of comments received, in August 1971 the Board had approved an amendment to Regulation Y outlining certain types of insurance agency activities that it found to be closely related to banking and consequently permissible. The Board had also considered but had decided not to adopt at that time a general regulatory provision as to whether insurance underwriting activities are closely related to banking.

The amendment now adopted followed consideration by the Board of the record of a hearing in March 1972 on the subject of credit insurance underwriting and of comments received with respect to the hearing, together with the Board's prior experience in the field of bank holding company insurance activities. To assure that engaging in the underwriting of credit life and credit accident and health insurance can reasonably be expected to be in the public interest, the Board indicated that it would approve only those applications in which an applicant demonstrated that approval would benefit the consumer or result in other public benefits. Normally such a showing would be made by a projected reduction in rates or an increase in policy benefits because of bank holding company performance of this service.

Under the amendment the operation of a credit life and credit accident and health insurance program, including the underwriting of such insurance directly related to extensions of credit by a bank holding company system, was determined to be closely related to banking. The Board was of the view that operation of such a program not only would provide the borrower with financial security in the event of death or disability but also would assure a bank or bank-related firm of repayment of a credit extension.

In reaching this conclusion, the Board also took into consideration the legislative history of the Bank Holding Company Act, which indicated that Congress felt that the operation of a credit life and credit accident and health insurance program was closely related to banking.

FOR THE YEAR 1972

DISAPPROVALS OF RESERVE BANK ACTIONS TO CHANGE DISCOUNT RATE

The discount rate remained unchanged throughout 1972 at 4½ per cent, the level established on December 10, 1971. Key short-term interest rates fell somewhat below the discount rate early in 1972, but by the latter part of the year such rates had risen above the discount rate as vigorous expansion in economic activity and associated demands in credit markets led to increasing pressures in the money market. Over the course of the year, the Board disapproved several actions taken by the directors of a number of Federal Reserve Banks to change the discount rate, including actions to lower it during the January–March quarter and to raise it during the September–December period. Late in the year the Board became increasingly convinced that the trend of interest rate developments might soon require a higher discount rate, and a few days after the turn of the year—on January 12, 1973—it approved an increase of ½ percentage point to 5 per cent at all of the Reserve Banks. The increase brought the discount rate into better alignment with prevailing short-term market rates.

The general economic and financial conditions that the Board considered in arriving at its discount rate decisions during the year are reviewed elsewhere in this ANNUAL REPORT, particularly in the discussion of the U.S. economy contained in Part I and in the policy record of the Federal Open Market Committee in Part II.

During the January–March period, proposals were received from a number of Federal Reserve Banks to lower the discount rate to 4 or 4¼ per cent. The Board's disapprovals were based in large part on a view that the proposed reductions might foster misleading expectations at home and abroad regarding the future course of monetary policy.

During the last 4 months of the year, the Board disapproved a series of actions taken by the directors of several Federal Reserve Banks to raise the discount rate to 4¾ or 5 per cent. While the immediate circumstances surrounding the successive disapprovals and the specific reasons for them varied, throughout this 4-month period the Board was concerned that an increase in the discount rate—unless clearly called for to keep that rate aligned with short-term market rates—might mislead the public with regard to the general thrust of monetary policy and precipitate a substantial and unwanted increase in market rates of interest.

In particular, concern was expressed that Phase II of the economic stabilization program might tend to be undermined if the Federal Reserve took an action that was followed by an upward movement in a wide range of interest rates, including quite possibly some institutional lending rates. While institutional lending rates on consumer loans and home mortgages might not be directly affected, it was felt that the rates charged by large banks to prime business customers would be especially sensitive to an increase in the discount rate under prevailing conditions. Various other factors—including the moderate growth of bank reserves and of the monetary aggregates during most of the period and the timing of Treasury financing operations—were also seen as weighing against the proposed increases in the discount rate during the period.

Late in the year the growing evidence of vigorous expansion in economic activity, the rise in short-term interest rates, and the renewed, rapid growth in the monetary aggregates led the Board to conclude that a higher discount rate might well be needed in the relatively near future. However, in their decision on December 18 to disapprove several proposed increases, a majority of the Board members still thought that prevailing uncertainties in financial markets and the imminence of important Treasury financing operations made it advisable to postpone an increase in the rate. When the increase to 5 per cent was approved on January 12, 1973, the substantial advances that had occurred earlier in short-term market interest rates indicated that the change in the discount rate clearly lagged, and was precipitated by, the market adjustments.

Individual members dissented from some of the Board's disapprovals of proposed increases in the discount rate during the last 4 months of 1972. In their judgment, particular proposed increases were warranted by current and prospective economic and financial conditions—and also by the rise that was taking place in member bank borrowings and by the desirability of keeping the discount rate in close alignment with short-term market rates. They also felt that an increase in the rate would have a beneficial impact on public psychology by focusing attention on the System's determination to resist inflationary pressures in the economy. In their view, a higher discount rate would be consistent with the thrust of the System's over-all monetary policy and would not be likely, under prevailing circumstances, to have any significant or lasting impact on market interest rates.

In proposing changes in the discount rate during the course of 1972, the directors of individual Federal Reserve Banks took note of current and prospective economic and financial developments and indicated a desire to maintain the discount rate in relatively close alignment with short-term market interest rates. The directors suggested that small and fairly prompt adjustments in the discount rate would avoid the need for sizable and potentially disruptive changes and would have the advantage of facilitating the administration of the discount window at the Federal Reserve Banks. As the year progressed, many directors felt that an increase in the discount rate would also serve a useful purpose in signaling the System's determination to avoid an overly expansionary monetary policy.

The individual Board decisions and the votes taken were as follows:

Disapproval of Discount Rate Reductions

JANUARY 31, 1972

The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on January 27 establishing a discount rate of 4 per cent (a decrease from 4½ per cent).

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

FEBRUARY 18, 1972

The Board disapproved actions taken by the directors of the Federal Reserve Banks of St. Louis and Kansas City on February 10 and 17, respectively, to reduce the discount rate to 4 per cent, and by the directors of the Federal Reserve Bank of Philadelphia on February 17 to lower the rate to 4¼ per cent.

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

FEBRUARY 25, 1972

The Board disapproved an action taken by the directors of the Federal Reserve Bank of St. Louis on February 24 to reduce the discount rate to 4 per cent.

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

MARCH 9, 1972

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Kansas City and St. Louis on March 2 and 9, respectively, to lower the discount rate to 4 per cent.

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

Disapproval of Discount Rate Increases

SEPTEMBER 1, 1972

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on August 31 to raise the discount rate to 4¾ per cent.

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

SEPTEMBER 5, 1972

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on the same date to raise the discount rate to 4¾ per cent.

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

SEPTEMBER 29, 1972

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Boston on September 18, of the Federal Reserve Banks of New York, Philadelphia, and Kansas City on September 21, and of the Federal Reserve Bank of Chicago on September 28 to increase the discount rate to 4¾ per cent.

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

OCTOBER 3, 1972

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on October 2 to raise the discount rate to 4¾ per cent.

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

OCTOBER 10, 1972

The Board disapproved an action taken by the directors of the Federal Reserve Bank of New York on October 5 to increase the discount rate to 4¾ per cent.

> Votes for this action: Messrs. Burns, Robertson, Mitchell, Sheehan, and Bucher. Votes against this action: None. Absent and not voting: Messrs. Daane and Brimmer.

OCTOBER 16, 1972

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Dallas and Boston on October 12 and 16, respectively, to raise the discount rate to 4¾ per cent.

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

NOVEMBER 20, 1972

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on November 16 to increase the discount rate to 4¾ per cent.

> Votes for this action: Messrs. Burns, Robertson, Mitchell, Daane, Brimmer, Sheehan, and Bucher. Votes against this action: None.

DECEMBER 18, 1972

The Board disapproved actions taken on December 14 by the directors of the Federal Reserve Banks of Richmond and Chicago to increase the discount rate to 4¾ per cent and by the directors of the Federal Reserve Bank of St. Louis to raise the rate to 5 per cent.

> Votes for this action: Messrs. Burns, Mitchell, Daane, and Bucher. Votes against this action: Messrs. Robertson and Brimmer. Absent and not voting: Mr. Sheehan.

The result of the Board's actions was to continue in effect the rates on discounts and advances contained in the existing rate schedules of the Federal Reserve Banks, which had been established in December 1971.

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 1972, 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 1972. No revisions were made in the foreign currency instruments 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, 1972)[1]

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 and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States in the open market, from or to 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 and Federal agency securities with the Treasury or the individual agencies or to allow them to mature without replacement; provided that the aggregate amount of U.S. Government and Federal agency 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 re-

[1] On Jan. 1, 1972, the lower limit on interest rates on repurchase agreements arranged by the Federal Reserve Bank of New York, specified in paragraph 1(c) of this directive, was temporarily in a state of suspension pursuant to an action taken by the Committee on Dec. 23, 1971. See policy record for meeting held on Jan. 12, 1972, section headed "Ratification of earlier actions."

spect 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, 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 ¼ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed $1 billion.

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, 1972)

The information reviewed at this meeting suggests that real output of goods and services is increasing more rapidly in the current quarter than it had in the third quarter, but the unemployment rate remains high. Increases in prices and wages were effectively limited by the 90-day freeze, which ended in mid-November. Since then some wage and price increases have occurred, but other increases requested have been cut back or not approved by the Pay Board and the Price Commission. The narrowly defined money stock changed little in November and has not grown on balance since August. Inflows of consumer-type time and savings deposits to banks remained rapid in November and the broadly defined money stock continued to increase moderately. Expansion in the bank credit proxy stepped up as U.S. Government deposits and nondeposit liabilities increased on average. After advancing in the latter part of November, most market interest rates have been declining recently, and discount rates at four Federal Reserve Banks were reduced by an additional one-quarter of a percentage point. The U.S. foreign trade balance was heavily in deficit in October. In recent weeks net outflows of short-term capital apparently have been substantial, market exchange rates for foreign currencies against the dollar on average have risen further, and official reserve holdings of some countries have increased considerably. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions consistent with the aims of the new governmental program, including sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, the Committee seeks to promote the degree of ease in bank reserve and money market conditions essential to greater growth in monetary aggregates over the months ahead, while taking account of international developments.

AUTHORIZATION FOR SYSTEM FOREIGN CURRENCY OPERATIONS

(in effect January 1, 1972)

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.

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	600
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	1,250
Bank of Japan	1,000
Bank of Mexico	130

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Netherlands Bank	300
Bank of Norway	200
Bank of Sweden	250
Swiss National Bank	1,000
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against authorized European currencies other than Swiss francs	1,000

3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, 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, 1972)

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

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

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

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

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

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

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

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

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

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

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

3. System drawings under the swap arrangements are appropriate when

necessary to obtain foreign currencies for the purposes stated in paragraph 2 above.

4. Unless otherwise expressly authorized by the Committee, transactions in forward exchange, either outright or in conjunction with spot transactions, may be undertaken only (i) to prevent forward premiums or discounts from giving rise to disequilibrating movements of short-term funds; (ii) to minimize speculative disturbances; (iii) to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders; (iv) to allow greater flexibility in covering System or Treasury commitments, including commitments under swap arrangements, 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 11, 1972

1. Current economic policy directive.

The information reviewed at this meeting suggested that the rate of growth in real output of goods and services (real gross national product) had stepped up in the fourth quarter of 1971 and that prices, which had been subject to Government controls since mid-August, had risen relatively little from the third to the fourth quarter. Staff projections suggested that the faster pace of growth in real GNP would continue in the first half of 1972.

In December nonfarm payroll employment and industrial production rose further, although to a large extent the gains were attributable to post-strike recovery in coal mining. The unemployment rate edged up to 6.1 from 6.0 per cent in November. Retail sales fell in December, according to the advance report, in part because sales of new cars dropped from the high rates prevailing during the first phase of the new economic program.

The rates of increase in prices and wages, which had slowed sharply during the freeze in effect from mid-August to mid-November, picked up afterward. Under the post-freeze program, some increases in wages—both previously scheduled and newly negotiated—were allowed to go into effect, some of the many pending applications for price increases were approved, and a general increase in residential rents was authorized.

The latest staff projections for the first half of 1972 were similar to those of 4 weeks earlier, although the expansion now expected in consumer spending was not so rapid. Also, the projected rise in Federal outlays in the first quarter had been increased as a consequence of a recently enacted Government pay raise effective in early January. It was still anticipated that business capital outlays, residential construction, and State and local government expenditures would grow at substantial rates and that business inventory investment would increase further.

The Finance Ministers and central bank Governors of the Group of Ten, meeting at the Smithsonian Institution in Washington, reached agreement on December 18 regarding revaluations of foreign currencies against the dollar and a widening of permissible margins for exchange rate fluctuations. Following announcement of the agreement, market exchange rates for major foreign currencies against the dollar generally moved up to levels a little above their new lower limits. Outflows of short-term capital from the United States—which had been very large during much of 1971—came to a halt, and some funds flowed back before the year-end. However, the U.S. basic balance of payments remained in deficit and foreign official reserves declined only a little.

Demands for business loans at commercial banks remained weak in December, and most large banks reduced their prime rates around the end of that month. Real estate and consumer loans continued to expand at a rapid pace in December and banks sharply increased their holdings of securities.

The narrowly defined money stock (private demand deposits plus currency in circulation, or M_1), which had not grown on balance from August to November, rose somewhat from November to December. Over the fourth quarter M_1 increased at an annual rate of about 1 per cent, after rising at rates of about 3.5 per cent over the third quarter and 10 per cent over the first half of 1971.[1] Inflows of savings to commercial banks increased in December and the money stock more broadly defined (M_1 plus commercial bank time deposits other than large-denomination CD's, or M_2) rose at a substantial rate. Growth in the bank credit proxy—daily-average member bank deposits, adjusted to include funds from nondeposit sources—also was substantial as the average volume of both large-denomination CD's outstanding and U.S. Government deposits expanded. At the same time, banks reduced their outstanding borrowings of Euro-dollars by large amounts. Over the fourth quarter M_2 and the proxy series increased at annual rates of about 8 and 9.5 per cent, respectively.

System open market operations in the period since the last meeting of the Committee had been complicated by year-end churning in the money market and by uncertainties regarding the likely volume of reflows of short-term capital following the Smith-

[1]Growth rates cited are calculated on the basis of the daily-average level in the last month of the period relative to that of the preceding period.

sonian Agreement. It was expected that if the reflows were large they would be accompanied by heavy foreign central bank sales of Treasury securities. In order to leave scope for future outright purchases of securities to moderate the market impact of such sales, the System made extensive use of repurchase agreements in the latter part of December to supply reserves on a temporary basis. In fact, however, reflows during the period were of quite modest dimensions.

Over the period as a whole System operations had been directed at fostering a substantial easing in money market conditions, against the background of the behavior of the monetary aggregates—particularly the continuing sluggishness of M_1. The Federal funds rate was about 3⅝ per cent at the time of this meeting, down from the level of about 4⅜ per cent prevailing at the time of the preceding meeting. In the 4 weeks ending January 5, member bank borrowings averaged $110 million compared with $395 million in the preceding 4 weeks.

At the time of this meeting interest rates on most types of market securities were lower than they had been in mid-December. Short-term rates had fallen, in part because of the easing of money market conditions associated with the System's reserve-supplying operations and because of anticipations on the part of market participants of still greater ease. Even with the auction on December 22 of $2.5 billion of tax-anticipation bills, Treasury bill rates had come under strong downward pressure as the reflow of short-term capital from abroad—and the consequent sales of bills by foreign central banks—proved to be far less than the market had expected. On the day before this meeting of the Committee, the market rate on 3-month bills was about 3.00 per cent compared with 3.95 per cent 4 weeks earlier.

Declines in rates for long-term securities were much more moderate. Early in the period capital markets were still under the influence of the Treasury's November financing, and later they were affected by discussion of the possibility that the February financing—the terms of which were expected to be announced near the end of January—would include an advance refunding. Public offerings of new corporate bonds were light, as is usual in December, but offerings of new State and local government bonds were contraseasonally large. It was expected that the volume of corporate issues would rebound in January but that issues of State and local governments would taper off.

Yields in the secondary market for Federally insured mortgages declined slightly further in December. Inflows of savings to nonbank thrift institutions, which had slowed in November, increased in December as the relative attractiveness of savings shares and deposits was enhanced by the further declines in market interest rates.

In the Committee's discussion considerable concern was expressed about the persistent sluggishness of key monetary aggregates, and a number of members advocated action to provide sufficient reserves to support the faster monetary growth that they believed was required by the economic situation and outlook. It was noted in this connection that the level of member bank reserves, as well as that of M_1, had changed little during the fourth quarter despite a progressive easing of money market conditions. In the interest of assuring the provision of reserves needed for adequate growth in monetary aggregates, the Committee decided that in the period until its next meeting open market operations, while continuing to take appropriate account of conditions in the money market, should be guided more by the course of total reserves than had been customary in the past.

The members also agreed that in the course of operations account should be taken of international developments and, beginning late in the month, of the forthcoming Treasury financing.

In placing greater emphasis on total reserves, the Committee took note of a staff analysis suggesting that moderate rates of growth in M_1 and M_2 in January and February were likely to be associated with a large increase in total reserves from December to January and then a decline in February—mainly as a consequence of recent and anticipated changes in U.S. Government deposits, and allowing for the 2-week lag between member bank deposits and required reserves. Against the background of this analysis, a majority agreed that an annual rate of growth in total reserves of roughly 20 to 25 per cent from December to January would be satisfactory, provided that it could be attained without undue easing of money market conditions.

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 more rapidly in the fourth quarter than it had in the third quarter, but the unemployment rate remained high. In recent weeks wage and price developments have reflected some increases that had been deferred under the 90-day freeze. The narrowly defined money stock, which had not grown on balance from August to November, rose somewhat in December, while both the broadly defined money stock and the bank credit proxy increased substantially. Market interest rates, particularly short-term rates, have declined in recent weeks. After international agreement was reached in December on new central exchange rates and on wider margins of permissible variation, market exchange rates for major foreign currencies against the dollar initially moved to levels a little above their new lower limits. The volume of capital reflows to the United States has been modest, however, and the underlying U.S. balance of payments remains in deficit. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions consistent with the aims of the new governmental program, including sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of international developments and the forthcoming Treasury financing, the Committee seeks to promote the degree of ease in bank reserve and money market conditions essential to greater growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Clay, Daane, Maisel, Mayo, Mitchell, Morris, Robertson, and Sheehan. Votes against this action: Messrs. Hayes, Brimmer, and Kimbrel.

Messrs. Hayes, Brimmer, and Kimbrel differed somewhat in their reasons for dissenting from this action. Mr. Hayes considered the emphasis placed on total reserves as an operating target to be an undesirable step; in his judgment, reserves were much less meaningful than other measures, such as the monetary and credit aggregates and interest rates, as an instrument for working toward the Committee's basic economic objectives. Also, he was reluctant to issue a directive that might involve a substantial further easing of money market conditions, since the Committee had already moved rapidly in that direction and since it appeared to him that the economic outlook had improved somewhat in recent months. He was concerned about the risk that a further sharp decline in short-term interest rates might subject financial markets to unnecessary whipsawing and might tend to rekindle inflationary expectations.

Mr. Brimmer shared the majority's views concerning broad objectives of policy at this time, and he indicated that he would have voted favorably on the directive were it not for the decision to give special emphasis to total reserves as an operating target during coming weeks. In his judgment the Committee should have had more discussion of the implications of that decision, and in any case it should have postponed the decision until after it had held a contemplated meeting to be devoted primarily to discussion of its general procedures with respect to operating targets.

Mr. Kimbrel favored supplying reserves at a rate that would accommodate orderly economic expansion. He voted against the directive because he thought it involved risks of depressing short-term interest rates to unsustainably low levels and of producing excessive rates of growth in the monetary aggregates in the future.

2. Ratification of earlier actions.

Earlier in the course of this meeting the Committee, by unanimous vote, ratified the action taken by the members on December 20, 1971, adding the clause "while taking account of international developments" at the end of the final sentence of the current economic policy directive then in effect.

Also, with Mr. Robertson dissenting, the Committee ratified the action taken by vote of a majority on December 23, 1971, to suspend, until close of business on the day of the next meeting, the lower limit (specified in paragraph 1(c) of the continuing authority directive with respect to domestic open market operations) on interest rates on repurchase agreements arranged by the

Federal Reserve Bank of New York with nonbank dealers. The suspended provision specified that such repurchase agreements were to be made "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."

The two actions in question had been taken for reasons set forth in the policy record for the meeting held on December 14, 1971. Mr. Robertson dissented from ratification of the second action for the same reasons that had led him to dissent from the action itself, as described in that policy record.

MEETING HELD ON FEBRUARY 15, 1972

1. Current economic policy directive.

The information reviewed at this meeting indicated that in the fourth quarter of 1971 real GNP had grown at an annual rate of about 6 per cent, compared with (downward revised) growth rates of about 3.5 and 2.5 per cent in the second and third quarters, and that prices had risen relatively little in reflection of the 90-day freeze imposed in mid-August. Staff projections suggested that the faster pace of growth in real GNP would be sustained through the first half of 1972, and that prices were likely to rise sharply for a time in the post-freeze period.

In January industrial production and manufacturing employment increased somewhat, although the average workweek in manufacturing declined after having risen for several months. Total nonfarm payroll employment advanced substantially further, and the unemployment rate edged down to 5.9 from 6.0 per cent in December. Weekly data suggested that retail sales increased a little in January, following a substantial decline in December.

The wholesale and consumer price indexes rose sharply from November to December, reflecting in part the mid-November termination of the 90-day freeze. About half the rise in both indexes was accounted for by increases in foodstuffs, which are largely uncontrolled, and in imported goods and other items exempt from the controls. Wage rates also rose substantially in December when, under the post-freeze program, some increases—both previously scheduled and newly negotiated—were allowed to go into effect. However, the advance in wage rates slowed in January.

The staff's projection of growth in real GNP in the first half of 1972 was about unchanged from 5 weeks earlier, although expectations for some major categories of expenditure were altered. Thus, the projected expansion in Federal purchases of goods and services—which had been raised 5 weeks earlier to reflect the Government pay increase effective in early January—was raised further to reflect a concentration of outlays in the second quarter of the year, roughly in line with the administration's late-January estimates of the Federal budget for the 1972 fiscal year. On the other hand, the prospective gains in consumer spending were scaled down moderately, in large part reflecting the recent lack of strength in retail sales and evidence that new withholding schedules were resulting in substantial overwithholding of personal income taxes. As in the previous projection, it was anticipated that business capital outlays, residential construction, and State and local government expenditures would continue to grow at substantial rates and that business inventory investment would increase further.

In foreign exchange markets, rates for most major currencies appreciated against the dollar in January and early February, rising to or above their new central values. Over the whole period from the time of the Smithsonian Agreement on December 18 through early February, there was a small surplus in the U.S. balance of payments on the official settlements basis, as reflows of funds to the United States after the agreement were somewhat in excess of the deficit on current account and normal capital transactions.

The Treasury announced on January 26 that in its mid-February financing it would offer at par a 51-month, 5¾ per cent note and a 10-year, 6⅜ per cent bond in exchange for issues maturing in February 1972 and in February and May 1974. This combination of a refunding and a pre-refunding was well received. About $1.2 billion or 32 per cent of the $3.8 billion of the publicly held issues maturing this February were redeemed for cash, and the Treasury met the cash requirement by reducing its balance from a relatively high level.

Interest rates on long-term securities generally had risen in recent weeks, largely in reaction to the new estimates of a larger Federal deficit in fiscal 1972 than had been anticipated and to numerous announcements of prospective new corporate security issues. However, some corporate borrowers indicated that the exact timing of their offerings would depend on market conditions, and others postponed prospective issues in reaction to rising interest rates. In the month of January the volume of new corporate issues rose somewhat more than seasonally while that of State and local government issues declined.

Most short-term interest rates had declined since the last meeting of the Committee in response to strong private domestic and foreign official demands for short-term securities as well as to further easing in money market conditions. Treasury bill rates had risen early in the period, reflecting expectations of heavy Treasury financing in the short-term area, but after that they fell back. At 3.00 per cent on the day before this meeting, the market rate on 3-month bills was about the same as 5 weeks earlier.

Contract interest rates on conventional new-home mortgages and yields in the secondary market for Federally insured mortgages continued to decline in January. Inflows of savings funds to non-bank thrift institutions rose sharply further—approaching the record high rates of early 1971—in part because of the continuing decline in yields available on short-term market securities relative to the rates paid on savings shares and deposits.

Business loans at commercial banks increased somewhat in January, but business loan demand apparently remained relatively weak, and major banks again lowered their prime rates. Real estate and consumer loans continued to expand rapidly, and banks further increased their holdings of securities other than Treasury issues.

Following the January 11 meeting of the Committee, System open market operations had been directed at fostering substantial growth in total member bank reserves in January, while continuing to take appropriate account of conditions in the money market. After late January, System operations gave primary emphasis to maintaining steady conditions in the money market while the Treasury was engaged in its refunding operation. Total reserves were indicated to have grown from December to January at an annual rate of 28 per cent on the basis of earlier seasonal adjustment factors, and at about a 21 per cent rate on the basis of the factors emerging from the annual revision of seasonal adjustments, completed shortly before this meeting. In late January and the first half of February the Federal funds rate fluctuated around 3¼ per cent, down from 3⅝ per cent at the time of the Committee's meeting on January 11. In the 5 weeks ending February 9, member bank borrowings averaged about $20 million compared with $110 million in the preceding 4 weeks.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1), remained relatively slow in January. However, money more broadly defined (M_1 plus commercial bank time deposits other than large-denomination CD's, or M_2) grew at a fast pace as inflows of savings to commercial banks—

like those to nonbank thrift institutions—rose sharply further. Growth was also rapid in the adjusted bank credit proxy—daily-average member bank deposits, adjusted to include funds from nondeposit sources—although the average volume of outstanding large-denomination CD's declined moderately and Government deposits changed little.

In continuation of a discussion begun at a meeting on the previous day, the Committee considered the relative merits of money market conditions and various measures of member bank reserves as "operating targets"—that is, as variables for guiding day-to-day open market operations in the effort to achieve its intermediate monetary objectives and, in the process, contribute to the Nation's basic economic goals. Some arguments were advanced in favor of placing about the same degree of emphasis on money market conditions as had been customary prior to the meeting on January 11. However, the Committee concluded that in the present environment it was desirable to increase somewhat the relative emphasis placed on reserves while continuing to take appropriate account of money market conditions. Committee members believed that doing so would enhance their ability to achieve desired intermediate monetary objectives. These include the performance of various measures of money stock and bank credit that are supported by reserves as well as interest rates and over-all liquidity and credit conditions. At the same time, the members believed that reserve-supplying operations should be conducted so as to avoid disturbing effects in money and credit markets.

At this meeting the Committee decided to express its reserve objectives in terms of reserves available to support private nonbank deposits—defined specifically as total member bank reserves less those required to support Government and interbank deposits. This measure was considered preferable to total reserves because short-run fluctuations in Government and interbank deposits are sometimes large and difficult to predict and usually are not of major significance for policy. It was deemed appropriate for System open market operations normally to accommodate such changes in Government and interbank deposits.

The Committee agreed that the economic situation and outlook at this time called for growth in the monetary aggregates at moderate rates. It took note of a staff analysis suggesting that, over the months of February and March combined, such growth was likely to be associated with expansion in the reserve measure employed at about an 8 per cent annual rate, and possibly with some firming of money market conditions. The members decided that it would be desirable to seek growth in the reserve measure in the February-March period at an annual rate in a range of 6 to 10 per cent, while avoiding both sharp short-run fluctuations and undesirably large cumulative changes in money market conditions in either direction in the period between meetings. They also decided that some allowance should be made in the conduct of operations for any significant deviations that might develop between the actual rates of growth in the monetary aggregates and the moderate growth rates expected.

The members also agreed that account should continue to be taken of international developments, and that to the extent feasible the Government securities purchased in reserve-supplying operations should include intermediate- and longer-term issues as well as Treasury bills.

Finally, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions if it appeared during the period before the next scheduled meeting that the Committee's several objectives and constraints were not being met satisfactorily.

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 output of goods and services increased more rapidly in the fourth quarter than it had in the third quarter, but the unemployment rate remained high. For the current quarter, growth is projected at a rate close to that of the fourth quarter. Prices increased sharply in December, in part reflecting termination of the 90-day freeze. Wage rates also rose substantially in December when some increases that had been deferred under the freeze were allowed to go into effect, but the rise slowed in January. The narrowly defined money stock, which had not grown on balance from August to November, rose somewhat in December and January. Inflows of time and savings funds at bank and nonbank thrift institutions increased sharply in January, and both the broadly defined money stock and the bank credit proxy expanded rapidly. Some short-term interest rates have

declined further in recent weeks while yields on long-term securities generally have increased from the lows reached around mid-January. Exchange rates for most major foreign currencies against the dollar have appreciated to levels near or above their new central values. Since the Smithsonian meeting, capital reflows to the United States have somewhat exceeded the underlying U.S. balance of payments deficit. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of international developments, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Brimmer, Clay, Daane, Kimbrel, Maisel, Mayo, Mitchell, Morris, Robertson, and Sheehan. Vote against this action: Mr. Hayes.

Mr. Hayes dissented from this action for essentially the same reasons he had dissented from the directive adopted at the previous meeting. First, he did not favor placing as much emphasis as contemplated on reserves as an operating target; he preferred to place main emphasis on money market conditions for that purpose. Second, he thought the policy agreed upon could result in an easing of money market conditions to a degree that in his judgment would entail substantial risks both domestically and internationally.

2. Continuing authority directive.

On January 26, 1972, a majority of Committee members had voted to suspend, until close of business on February 15, 1972, the lower limit (set forth in paragraph 1(c) of the continuing authority directive with respect to domestic open market operations) on interest rates on repurchase agreements arranged by the Federal Reserve Bank of New York with nonbank dealers. The provision in question, which also had been suspended for the period from December 23, 1971, through January 11, 1972, specified that such repurchase agreements were to be made "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."

> Votes for this action: Messrs. Burns, Hayes, Brimmer, Clay, Daane, Kimbrel, Maisel, Mayo, Mitchell, Morris, and Sheehan. Vote against this action: Mr. Robertson.

This action was taken on recommendation of the System Account Manager, to provide against the contingency that under existing rate limitations it might not prove feasible to enter into repurchase agreements during coming weeks in the volume likely to be found desirable to meet the Committee's objectives for member bank reserves. It was understood that rates below 3¼ per cent would not be used without prior notification to the Committee.

The action of January 26 was ratified at today's meeting. Mr. Robertson dissented from the ratification as well as from the original action for reasons similar to those underlying his dissent from the similar action taken in December. He preferred to have needed reserves injected into the banking system by means of outright purchases of Treasury securities in the open market rather than through repurchase agreements with Government securities dealers. In his judgment such agreements actually constituted subsidized loans to dealers, and he saw no justification for increasing the subsidy by making them at lower and lower rates of interest.

3. Revision of guideline for operations in agency issues.

On August 24, 1971, when the Committee had first authorized outright operations in securities issued by Federal agencies, it had approved certain initial guidelines for the conduct of such operations with the understanding that they would be subject to review and revision as experience was gained. At this meeting the Committee revised guideline 5 under which purchases were limited to issues outstanding in amounts of $300 million or over in cases where the obligations have a maturity of 5 years or less at the time of purchase, and to issues outstanding in amounts of $200 million or over in cases where the securities have a maturity of more than 5 years at the time of purchase. As revised, the guideline specified that the maturity of the obligation should be taken as of the time of issuance, rather than as of the time of purchase, in determining whether it was eligible for purchase.

> Votes for this action: Messrs. Burns, Hayes, Brimmer, Clay, Daane, Kimbrel, Maisel, Mayo, Mitchell, Morris, Robertson, and Sheehan. Votes against this action: None.

This action was taken on recommendation of the System Account Manager, on the grounds that from a practical standpoint it was undesirable for an obligation initially eligible for purchase and perhaps already held in the System Account to become ineligible merely because its maturity had shortened with the passage of time.

MEETING HELD ON MARCH 21, 1972

1. Current economic policy directive.

The latest estimates of the Commerce Department indicated that real output of goods and services had risen at an annual rate of nearly 6 per cent in the fourth quarter of 1971, and it appeared that expansion in real GNP was continuing at about that rate in the current quarter. Prices rose substantially in the first few months following the mid-November termination of the 90-day freeze.

In February industrial production and nonfarm payroll employment continued to expand, and estimates of both measures for January were revised upward by substantial amounts. The average workweek in manufacturing increased sharply, more than recovering the reduction of January, and the unemployment rate declined further to 5.7 from 5.9 per cent in January. The number of housing starts expanded substantially further. However, retail sales—according to the advance report—remained at the December–January level.

The wholesale price index continued to rise at a rapid rate in January and February. In addition to sizable advances in prices of industrial commodities—which for the most part had been expected in the first few months after termination of the 90-day freeze—there were large increases among foodstuffs. However, the advance in wage rates slowed after an initial post-freeze surge in December.

Staff projections suggested that growth in real GNP would be somewhat faster in the second quarter than in the first, in large part because of acceleration in consumer expenditures. It was expected that consumer spending would be buoyed by a more rapid rate of expansion in disposable personal income—as many taxpayers took steps to remedy the overwithholding of taxes that had resulted from the introduction of new withholding schedules at the beginning of this year. It was expected also that the rise in prices would moderate from the high rate that followed termination of the freeze.

The deficit in U.S. merchandise trade remained large in January, about equaling the average of the preceding 9 months. Between mid-February and mid-March speculative outflows of funds from the United States raised the deficit in the over-all balance of payments and put further downward pressure on exchange rates for the dollar against other major currencies.

Short-term interest rates had increased considerably in recent weeks, reflecting in large part expanding market supplies of Treasury bills and firming money market conditions. From February 14 through March 20, the Treasury added $300 million to its weekly issue of bills, and on March 1 it auctioned a $3 billion strip of 15 outstanding issues of bills. In addition, the System sold sizable amounts of Treasury bills in order to absorb bank reserves that were supplied as the Treasury reduced its balances at the Federal Reserve Banks. On the day before this meeting of the Committee, the rate on 3-month bills was about 3.85 per cent compared with a recent low of about 3.00 per cent in mid-February.

Interest rates on long-term securities had changed little on balance since mid-February after having increased partly in reaction to late January estimates of a larger Federal deficit in fiscal 1972 than had been anticipated. The spread between rates on short- and long-term securities had been extremely wide by historical standards, and it remained wide even after the recent rise in short-term rates. In February, as in January, the volume of new corporate and State and local government bonds issued publicly was below the monthly average of 1971. It appeared that the volume of such issues would not change much in March.

Yields in the secondary market for Federally insured mortgages declined somewhat further in February, reaching a level about one-half of a percentage point lower than in the summer of 1971. The rates of inflow of savings funds to nonbank thrift institutions slowed from their exceptionally rapid pace of January, but they were still faster than the average rates of the second half of 1971. Despite the recent rise in yields available on short-term market securities, the rates paid on savings shares and deposits remained relatively attractive.

Business loans at commercial banks expanded more rapidly in February than at any other time since the summer of 1971 when loan demand had been stimulated by developments in foreign exchange markets, but expansion was concentrated in a relatively few industries. Real estate and consumer loans continued to increase at high rates and banks added a large amount to their holdings of securities, especially Treasury issues.

Following 6 months of slow growth, the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) increased sharply in February—in part because of a substantial reduction in U.S. Government deposits at commercial banks. Inflows of savings funds to commercial banks—although smaller than in January—remained large, and continued rapid growth was recorded for the more broadly defined money stock (M_1 plus commercial bank time deposits other than large-denomination CD's, or M_2). Growth moderated in the bank credit proxy—daily-average member bank deposits, adjusted to include funds from nondeposit sources—chiefly because of the reduction in Government deposits. Including rough estimates for March, it appeared that over the first quarter M_1 and M_2 would expand at annual rates of about 9.5 and 13.0 per cent, respectively, and that the bank credit proxy would rise at a rate of about 10.5 per cent.[1]

System open market operations since the February 15 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits—the measure employed by the Committee to express its objective for bank reserves—at an annual rate between 6 and 10 per cent in the February–March period while at the same time avoiding both sharp fluctuations and large cumulative changes in money market conditions. As the period progressed, it appeared that the reserve measure was growing at a rate of 10 per cent or slightly faster. It also appeared that the first-quarter growth rates developing for the monetary aggregates were somewhat above the rates the Committee had expected. As a result, operations were directed toward limiting the growth in reserves, and money market conditions were allowed to firm. The Federal funds rate, which had fluctuated around 3¼ per cent in the second half of February, rose to about 4 per cent at the time of this meeting. Member bank borrowings averaged about $60 million in the 2 weeks through March 15 compared with about $35 million in the preceding 3 weeks.

The Committee agreed that the economic situation continued to call for moderate growth in the monetary aggregates, although at rates less rapid than those likely to be recorded for the first quar-

[1]Growth rates cited are calculated on the basis of the daily-average level in the last month of the quarter relative to the last month of the preceding quarter.

ter. The members took account of a staff analysis suggesting that moderate rates of growth in the aggregates over March and April combined were likely to be associated with expansion in reserves available to support private nonbank deposits at an annual rate of about 11 per cent in those months, and probably with some further tightening in money market conditions. It was indicated that such developments would not necessarily have much lasting effect on capital markets, in view of the unusually wide spread existing between long- and short-term interest rates.

The Committee decided to seek growth in the reserve measure employed at an annual rate in a range of 9 to 13 per cent during the March–April period while avoiding both sharp day-to-day fluctuations and large cumulative changes in money market conditions. The members also decided that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating significantly from the rates expected; that account should be taken of international developments and of the Treasury financing of relatively small size that was being contemplated; and that reserve-supplying operations should continue to include to the extent feasible purchases of intermediate- and longer-term Government securities as well as Treasury bills. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if it appeared that the Committee's objectives and constraints were not being met satisfactorily.

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 increasing in the current quarter at about the stepped-up rate attained in the fourth quarter of 1971. Several measures of business activity have strengthened recently and demands for labor have improved somewhat, but the unemployment rate remains high. Wholesale prices continued to rise rapidly in January and February, in part because of large increases in prices of foods. However, the advance in wage rates slowed markedly after the post-freeze surge in December. Following a period of sluggish growth, the narrowly defined money stock increased sharply in February, partly reflecting a substantial reduction in U.S. Government deposits. Inflows of time and savings funds at bank and nonbank

thrift institutions continued rapid in February, although below January's extraordinary pace. Short-term interest rates have risen considerably in recent weeks while yields on long-term securities have changed little on balance. Exchange rates for most major foreign currencies against the dollar appreciated further in February and early March, as recurrent speculative outflows of capital added to the U.S. balance of payments deficit. In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of international developments and possible Treasury financing, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Maisel, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.

2. Continuing authority directive.

On February 29, 1972, the Committee members had voted to increase from $2 billion to $3 billion the limit on changes between Committee meetings in System Account holdings of U.S. Government and Federal agency securities specified in paragraph 1(a) of the continuing authority directive with respect to domestic open market operations.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Clay, Daane, Kimbrel, Maisel, Mayo, Mitchell, Morris, Robertson, and Sheehan. Votes against this action: None.

This action, which was ratified by unanimous vote at today's meeting, had been taken on recommendation of the System Account Manager as a temporary precautionary measure. The Manager had advised that increased leeway for System sales of Government and

Federal agency securities might well be required in implementing the Committee's policy directive during the period before the next meeting in view of the large volume of sales that had already been required because of the reduction in Treasury balances at Federal Reserve Banks.

At this meeting, after the Manager had advised that the larger limit no longer appeared likely to be needed, the Committee amended paragraph 1(a) of the continuing authority directive to restore the $2 billion limit that had been in effect prior to the action on February 29.

> Votes for this action: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Maisel, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.

On March 7, 1972, a majority of Committee members had voted to suspend, until the close of business on March 21, 1972, the lower limit (set forth in paragraph 1(c) of the continuing authority directive) on interest rates on repurchase agreements (RP's) arranged by the Federal Reserve Bank of New York with nonbank dealers. The provision in question—which had also been suspended for the periods from December 23, 1971, through January 11, 1972, and from January 26 through February 15, 1972—specified that such RP's were to be made "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."

> Votes for this action: Messrs. Hayes, Coldwell, Daane, Eastburn, MacLaury, Mitchell, Sheehan, and Winn. Votes against this action: Messrs. Brimmer and Robertson.
>
> Absent and not voting: Messrs. Burns and Maisel.

This action had been taken on recommendation of the Manager, to provide against the contingency that under existing rate limitations it might not prove feasible to enter into RP's during coming days in the volume likely to be found desirable to meet the Committee's objectives for member bank reserves. It was understood that rates below 3¼ per cent would not be used without prior notification to the Committee.

Mr. Brimmer had dissented from this action because he felt that excessive reliance was being placed on RP's in open market operations. He was also disturbed about the frequency with which RP's had been made recently at rates below the lower limit that would obtain in the absence of Committee action to suspend the relevant provision of the continuing authority directive. He thought that since such RP rates were typically below yields on 3-month Treasury bills, their continued use might give the market a misleading impression of the Committee's policy objectives.

Mr. Robertson had dissented from the action in question for the same reasons underlying his dissents from similar actions taken in December and January. He preferred to have needed reserves injected into the banking system by means of outright purchases of Treasury securities in the open market rather than through RP's with Government securities dealers. In his judgment such agreements actually constituted subsidized loans to dealers.

The action of March 7 was ratified by unanimous vote at today's meeting. Messrs. Brimmer and Robertson, having recorded their dissents from the action of March 7, did not consider it necessary to dissent also from the ratification.

3. Review of continuing authorizations.

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1972, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the continuing authority directive with respect to domestic open market operations, the authorization for System foreign currency operations, and the foreign currency directive in the forms in which they were presently outstanding.

> Votes for these actions: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Maisel, Mitchell, Robertson, Sheehan, and Winn. Votes against these actions: None.

In connection with the review of the continuing authority directive for domestic open market operations, the Committee took special note of paragraph 3, which authorized 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 paragraph had been added to the directive on October 7, 1969, 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 that the lending activity in question remained necessary and, accordingly, that the authorization should remain in effect subject to periodic review.

MEETING HELD ON APRIL 17, 1972

This meeting was called by the Chairman for the afternoon before the meeting scheduled for April 18, 1972, to enable the Committee to consider certain matters before it without infringing on the time available for its deliberations on current monetary policy.

1. Continuing authority directive.

The Committee amended paragraph 1(c) of the continuing authority directive with respect to domestic open market operations to provide that interest rates on repurchase agreements (RP's) arranged by the Federal Reserve Bank of New York with nonbank dealers should be determined by competitive bidding unless otherwise expressly authorized by the Committee. Prior to this action, interest rates on RP's had been administratively determined by the System Account Management, subject to the provision of paragraph 1(c) that they should not be less than (1) the discount rate of the Federal Reserve Bank of New York or (2) the average issuing rate on the most recent issue of 3-month Treasury bills, whichever is lower. (On three recent occasions—December 23, 1971; January 26, 1972; and March 7, 1972—the Committee had suspended this provision for periods of a few weeks, on the basis of advice from the System Account Manager that it might otherwise not prove feasible to enter into RP's in the volume likely to be found desirable to meet the Committee's current reserve objectives.) Although no upper limit was specified in the continuing authority directive, in practice RP rates ordinarily had not been set higher than the discount rate. The amended paragraph read as follows:

> 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 that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable

limitations on the volume of agreements with individual dealers; 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.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Maisel, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.

This action was taken on recommendation of a staff committee appointed to study certain matters relating to RP's. The staff committee found that such agreements provide a useful means for supplying reserves when the indicated reserve needs are large but are likely to be of a short duration, and that existing procedures for setting RP rates had worked fairly well on the whole. However, the staff committee also concluded that a competitive bidding procedure would have certain advantages. In particular, it would minimize the unwarranted ''announcement effects'' that had sometimes resulted when market participants attached an unintended policy significance to changes in the RP rate. Secondly, it would insure that the costs to dealers of funds obtained through System repurchase agreements were closely related to the costs of funds available to them from alternative sources.

The Open Market Committee concurred in these findings of the staff committee and decided to experiment with a procedure under which rates on RP's with nonbank dealers would be established through competitive bidding, after applying reasonable limitations on the volume of RP's with individual dealers. In view of the possibility that circumstances might arise under which a competitive bidding procedure would not be desirable, provision was made for the use of other procedures when expressly authorized by the Open Market Committee.

2. Revision of guideline for operations in Federal agency issues.

At this meeting the Committee revised the sixth of the guidelines for the conduct of System operations in securities issued by Federal agencies. Initial guidelines had been approved on August 24, 1971, with the understanding that they would be subject to review and revision as experience was gained, and guideline 5 had been revised on February 15, 1972. Prior to today's action, guideline 6 had specified that System holdings of any one issue would not exceed 10 per cent of the amount of the issue outstanding, but that there would be no specific limit on aggregate holdings of the issues of any one Federal agency. The revision consisted of an increase in the limit on holdings of any one issue to 20 per cent, and the addition of a provision that aggregate System holdings of the issues of any one agency would not exceed 10 per cent of the amount of outstanding issues of that agency.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Maisel, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.

This action was taken on the grounds that it would reduce the number of occasions on which the System might have to reject offers of particular issues that were priced attractively relative to other issues, while maintaining the principle that System operations in agency issues should be conducted on a limited scale so as not to dominate the market for such issues.

MEETING HELD ON APRIL 18, 1972

Current economic policy directive.

The information reviewed at this meeting suggested that real output of goods and services had grown in the first quarter of 1972 at about the stepped-up rate attained in the fourth quarter of 1971, and that prices had risen at a relatively fast pace in the first quarter, in part because of the mid-November termination of the 90-day freeze. Staff projections suggested that the rate of growth in real GNP would increase somewhat in the current quarter and that the uptrend in prices would moderate.

In March retail sales increased sharply after having changed little for several months. Industrial production continued to grow at a substantial rate, employment rose appreciably in manufacturing and other nonfarm establishments, and the average factory workweek remained near the high level reached in February. However, the unemployment rate moved back up to 5.9 per cent from 5.7 in February, reflecting a very large increase in the civilian labor force. Housing starts dropped in March from the extraordinary high they had reached in February.

The uptrend in wholesale prices of industrial commodities continued in March at about the relatively rapid rate prevailing since mid-November, when the 90-day freeze had ended. However, average prices of foodstuffs declined, after having risen sharply in February, and the increase in the total wholesale price index was small. Average hourly earnings of production workers on private nonfarm payrolls now were estimated to have advanced at a more rapid pace in January and February than had been indicated by earlier data, and they rose appreciably further in March.

According to staff projections, growth in real GNP would pick up in the second quarter mainly because of a sizable advance in consumer spending. Such spending would be buoyed by a much larger gain in disposable income than in the first quarter, when an increase in personal income tax payments under the new withholding schedules had dampened the rise. The staff projections suggested that both Federal purchases and State and local government outlays would continue to expand at moderate rates and that the rise in residential construction outlays would slow as housing starts declined from a record level. It was expected that business capital outlays, in line with recent surveys, would continue to increase, but at a less rapid pace than in the first quarter.

Projections for the second half of the year suggested some further step-up in the rate of growth in real GNP. It was anticipated that disposable income and consumption expenditures would increase at a faster pace; that business capital outlays would continue to grow at moderate rates and inventory investment would increase further; that State and local government expenditures would expand substantially; and that net exports would improve in lagged response to the earlier realignment of exchange rates. On the other hand, Federal outlays were expected to rise at a slower pace than in the first half of the year and residential construction activity was expected to level off.

In foreign exchange markets the dollar had strengthened somewhat since mid-March and the deficit in the U.S. balance of payments on the official settlements basis had been small, in contrast with preceding weeks when the dollar had weakened in association with speculative outflows of funds. Markets had been influenced in recent weeks by the rise in short-term interest rates in the United States relative to those abroad and by the enactment on April 3 of the Par Value Modification Act, which raised the U.S. official price of gold from $35 to $38 per ounce. In February the value of U.S. exports fell much more than the value of imports and the deficit in merchandise trade increased from the already large amount in January.

Short-term interest rates generally had continued to rise since the Committee's meeting on March 21, in response to some further tightening in money market conditions and to evidence of gathering strength in economic activity and rising credit demands. However, the market rate on 3-month Treasury bills, at about 3.85 per cent on the day before this meeting, was unchanged from 4 weeks earlier. Demands for bills of short maturities had expanded in recent weeks, and the prospective supply was reduced when the Treasury announced on March 21 that it would no longer add $300 million to its weekly issues of 91-day bills, as it had been doing since February 14.

In association with increases in yields on most types of short-term securities and growing uncertainties about the course of interest rates in general, rates on long-term securities also had drifted upward since the March meeting. The combined volume of new corporate and State and local government bonds publicly issued changed little in March, remaining well below the monthly average of 1971; the volume of offerings appeared likely to increase somewhat in April.

Contract interest rates on conventional new-home mortgages declined slightly in March while yields in the secondary market for Federally insured mortgages changed little. Inflows of savings funds to nonbank thrift institutions remained very large; for the first quarter as a whole they approximated the extraordinarily high rates of the same period of 1971.

At commercial banks, business loans outstanding rose in March at the stepped-up pace of February, and real estate and consumer loans continued to expand rapidly. Banks increased sharply further their holdings of both U.S. Government and other securities. In reaction to strengthening loan demand and advances in money market rates, most major banks raised their prime rates from 4¾ to 5 per cent in late March and early April.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) remained rapid in March. However, growth in the more broadly defined money stock (M_1 plus commercial bank time and savings deposits other than large-denomination CD's, or M_2) slowed somewhat. Inflows of savings funds to commercial banks, while still strong, continued to moderate—reflecting in part the increases in yields available on short-term market securities and earlier reductions in rates paid by banks on time and savings deposits. Over the first quarter, M_1 and M_2 grew at annual rates of about 9.5 and 13.5 per cent, respectively, compared with rates of about 1 and 8 per cent over the fourth quarter of 1971.[1] Chiefly because of large swings in U.S. Government deposits, the rate of growth in the bank credit proxy—daily-average member bank deposits, adjusted to include

[1] Growth rates cited are 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.

funds from nondeposit sources—increased sharply in March after having slowed in February.

System open market operations since the March 21 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits at an annual rate in the March–April period of 9 to 13 per cent while at the same time avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. It appeared at present that the reserve measure employed would actually grow over the March–April period at an annual rate of about 13.5 per cent, but a technical adjustment to the underlying data—which did not affect the deposit measure—accounted for about 1 percentage point of the rate of growth in the measure of reserves. The Federal funds rate had risen from about 4 per cent at the time of the March 21 meeting to around 4¼ per cent in recent weeks. Member bank borrowings averaged about $105 million in the 4 weeks ending April 12 compared with about $45 million in the preceding 5 weeks.

The Committee agreed that the economic situation called for growth in the monetary aggregates at rates somewhat more moderate than those recorded for the first quarter of the year. The members took account of a staff analysis which suggested that somewhat more moderate rates of growth over April and May combined were likely to be associated with expansion in the volume of reserves available to support private nonbank deposits at an annual rate of about 9 per cent in those months and probably with some further tightening of money market conditions.

The Committee decided to seek growth in the reserve measure employed at an annual rate in a range of 7 to 11 per cent during the April–May period and to accept, if necessary, somewhat firmer money market conditions in order to achieve growth in that range in existing circumstances, while continuing to avoid sharp fluctuations and large cumulative changes in money market conditions. The members also decided that account should be taken of the forthcoming Treasury financing and of developments in capital markets, and that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating significantly from the somewhat more moderate rates expected. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if it appeared that the Committee's objectives and constraints were not being met satisfactorily.

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 grew in the first quarter at about the stepped-up rate attained in the fourth quarter of 1971. Most measures of business activity have shown strength recently and demands for labor have improved further, but the unemployment rate remains high. The rise in wholesale prices slowed in March as some farm and food products declined sharply, but the rise in prices of industrial commodities remained substantial. Wage rates also rose substantially in March and over the first quarter as a whole. The dollar has strengthened somewhat in exchange markets in recent weeks, and the over-all U.S. balance of payments deficit on the official settlements basis has been small. In January and February merchandise imports continued to be considerably in excess of exports.
>
> The narrowly defined money stock expanded rapidly in February and March, bringing the annual rate of growth over the past 6 months to about 5¼ per cent. Inflows of consumer-type time and savings deposits to banks have been strong thus far this year, although they moderated as the first quarter progressed; inflows to nonbank thrift institutions remained very large. Mainly reflecting swings in U.S. Government deposits, a modest increase in the bank credit proxy in February was followed by a large increase in March. Market interest rates generally have continued to rise 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 sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.
>
> To implement this policy, while taking account of capital market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions that will support somewhat more moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Maisel, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.

MEETING HELD ON MAY 23, 1972

Current economic policy directive.

Estimates of the Commerce Department indicated that real output of goods and services had grown at an annual rate of 5.6 per cent in the first quarter—about the same rate as in the fourth quarter of 1971—and growth appeared to be accelerating in the current quarter. Staff projections suggested that the growth rate would increase further in the second half of 1972.

In April industrial production rose at a faster pace than earlier in the year, reflecting widespread gains in output among consumer goods, business equipment, and materials. Employment in manufacturing and other nonfarm establishments continued to expand, and the average factory workweek increased sharply. However, the unemployment rate remained at 5.9 per cent. According to the advance report, retail sales declined in April—following an upsurge in March—but they remained well above the monthly average in the first quarter. Housing starts continued to fall from the extraordinary high reached in February, although part of the reported decline for April may have reflected statistical problems.

Wholesale prices of farm and food products, which had declined in March, were about unchanged in April, but prices of industrial commodities continued to rise at the substantial rate of the preceding 4 months. The consumer price index rose somewhat, after having been stable in March; over the 2 months, retail prices of foods changed little. The advance in average hourly earnings of production workers on private nonfarm payrolls remained fairly rapid.

Staff projections continued to suggest that growth in real GNP would accelerate in the current quarter, with a step-up in inventory accumulation from a very low rate in the first quarter now expected to account for a part of the acceleration. Consumer spending, which had increased more in the first quarter than had been estimated earlier, was expected to continue upward at a substantial rate; such spending would be buoyed by a larger gain in disposable income than in the first quarter when a sizable increase in personal income tax payments under the new withholding schedules had dampened the rise. It was anticipated that business capital outlays would continue to increase, but at a less rapid pace than in the first quarter, and that the rise in residential construction outlays would slow.

Projections for the second half of the year, like those of 5 weeks earlier, suggested some further rise in the rate of real GNP growth. It was still anticipated that disposable income and consumption expenditures would increase at a faster pace, that business capital outlays and inventory investment would continue to expand, and that net exports would improve. On the other hand, it was expected that the expansion in Federal outlays would slow—although not to the extent that had been suggested in the previous projections—and that residential construction outlays would level off.

Exchange rates for the dollar against most major foreign currencies had changed little since mid-March. The U.S. balance of payments on the official settlements basis had been in slight surplus, reflecting an inflow of private capital, especially short term, to the United States; this was in contrast with the heavy deficit recorded in the first 2½ months of 1972 when private capital on balance had flowed out. The payments balance on the net liquidity basis apparently had remained in deficit in recent weeks, although the deficit was greatly reduced by the inflow of capital. In March the deficit in merchandise trade remained large.

The Treasury announced on April 26 that in its mid-May financing it would refund only $1.75 billion of the $2.4 billion in publicly held debt maturing on May 15 and that it would redeem the balance for cash. In the refunding the Treasury auctioned $1.25 billion of a 1-year note, at an average price to yield 4.44 per cent, and $500 million more of a bond maturing in February 1982, at an average price to yield 6.29 per cent. It was thought possible that the Treasury would undertake an advance refunding in the interval before the next meeting of the Committee.

Market interest rates generally had fluctuated in a narrow range since the Committee's meeting on April 18. Early in the period short- and long-term rates had edged down, partly in response to indications that Treasury cash borrowings in the second half of the year would be less than had been anticipated. Moreover, the combined volume of new corporate and State and local government bonds publicly issued had declined somewhat in April and appeared likely to decline further in May. Toward the end of the period, however, interest rates—especially short-term rates—had tended upward again partly in response to some firming in money market conditions and to three Treasury auctions of bills in a short period of time. The market rate on 3-month bills was 3.79 per cent on the day before this meeting, compared with a low of 3.42 per cent in early May and 3.85 per cent on the day before the April meeting.

Contract interest rates on conventional new-home mortgages and yields in the secondary market for Federally insured mortgages rose somewhat in April; in both cases the increases were the first in many months. Inflows of savings funds to nonbank thrift institutions slowed, but they remained at a relatively advanced pace.

At commercial banks, business loans outstanding expanded in April at a faster pace than in the first quarter, and real estate and consumer loans continued to grow rapidly. Banks added only a small amount to their holdings of Government securities and reduced slightly their holdings of other securities; in the first quarter, they had added substantial amounts of both.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) slowed to an annual rate of about 8 per cent in April from an average rate of about 12 per cent in February and March. Inflows of savings funds to commercial banks continued to slacken, and growth in the more broadly defined money stock (M_1 plus commercial bank time and savings deposits other than large-denomination CD's, or M_2) also moderated to a rate of about 8 per cent, from an average rate of 13 per cent in February and March. However, expansion in the bank credit proxy—daily-average member bank deposits, adjusted to include funds from nondeposit sources—remained rapid, reflecting increases in both U.S. Government deposits and the volume of large-denomination CD's outstanding.

System open market operations since the April 18 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in the April–May period of 7 to 11 per cent and growth in the monetary aggregates at somewhat more moderate rates than earlier, while at the same time avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. It appeared at present that RPD's would actually grow over the

April–May period at an annual rate of 7.5 per cent. Since the April meeting the Federal funds rate had continued to fluctuate around the 4¼ per cent level reached in early April. Member bank borrowings averaged about $115 million in the 5 weeks ending May 17 compared with about $105 million the preceding 4 weeks.

In pursuit of its open market objectives, the System needed to provide fewer reserves than it would otherwise have provided because a large amount of reserves was supplied by a reduction in the Treasury's balance at the Federal Reserve Banks and by the monetization of the gain in the dollar value of the gold stock that resulted from the recent increase in the U.S. official price of gold. In late April the System met temporary needs for reserves by making repurchase agreements with nonbank dealers; interest rates on those agreements were established by competitive bidding, in accordance with a Committee decision on April 17, 1972. In this initial use of the experimental auction procedure, no major difficulties were encountered.

The Committee agreed that the economic situation called for growth in the monetary aggregates over the months ahead at rates somewhat slower than those recorded in recent months. After taking account of recent changes in deposits and lagged reserve requirements, the Committee decided to seek growth in RPD's at an annual rate in a range of 7.5 to 11.5 per cent during the May–June period while continuing to avoid sharp fluctuations and large cumulative changes in money market conditions. It was recognized that growth in RPD's within that range might be associated with some firming of money market conditions. The members also decided that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating significantly from the rates expected and that account should be taken of capital market developments and possible Treasury refunding. As at other recent meetings, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if it appeared that the Committee's objectives and constraints were not being met satisfactorily.

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

The information reviewed at this meeting, including recent data for such measures of business activity as industrial production and employment, suggests that real output of goods and services may be growing at a faster rate in the current quarter than in the two preceding quarters, but the unemployment rate remains high. In April wholesale prices of farm and food products changed little—after having declined in March—but the rise in prices of industrial commodities remained substantial. The consumer price index, which had been stable in March, increased somewhat. Wage rates continued to rise at a substantial pace. The U.S. balance of payments on the official settlements basis has been in small surplus since mid-March, but the payments balance on the net liquidity basis has apparently remained in deficit. In March merchandise imports continued to be considerably in excess of exports.

Growth in both the narrowly and broadly defined money stock slowed in April from the rapid rates in February and March. Inflows of savings funds to nonbank thrift institutions also slowed, but they remained at a relatively advanced pace. Reflecting a further increase in U.S. Government deposits and a rise in the outstanding volume of large-denomination CD's, the bank credit proxy continued to expand at a rapid rate. In recent weeks, market interest rates have fluctuated in a narrow range.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of capital market developments and possible Treasury refunding, the Committee seeks to achieve bank reserve and money market conditions that will support somewhat slower growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Coldwell, Daane, Eastburn, MacLaury, Mitchell, Sheehan, and Winn. Votes against this action: None.

Absent and not voting: Messrs. Maisel and Robertson.

MEETING HELD ON JUNE 19-20, 1972[1]

Current economic policy directive.

The information reviewed at this meeting suggested that real output of goods and services was rising in the second quarter at a faster pace than the 5.6 per cent annual rate recorded in the first quarter. A moderately higher rate of growth appeared to be in prospect for the rest of 1972.

In May retail sales increased sharply, according to the advance report, and were well above the first-quarter average. Industrial production continued to expand, with gains reported among consumer goods, business equipment, and materials. Payroll employment rose substantially further in manufacturing and other nonfarm establishments, but because of another large addition to the civilian labor force, the unemployment rate remained at 5.9 per cent.

Wholesale prices of farm and food products rose considerably in May, following little change in April, and prices of industrial commodities continued upward at about the average rate of earlier months this year. Average hourly earnings of production workers on private nonfarm payrolls advanced at a slower pace than they had in the preceding 3 months.

The latest staff projections of real GNP for the second half of 1972, which suggested some further increase in the over-all rate of expansion, were similar to those of 4 weeks earlier. It was anticipated that disposable income and consumption expenditures would rise at a somewhat faster pace; that business capital outlays would continue to expand, although not so rapidly as had been suggested in the previous projections; and that inventory investment would increase appreciably. It was expected that Federal purchases of goods and services would expand moderately further and that residential construction would level off.

In foreign exchange markets, speculation involving a number of European currencies had developed since the last meeting of the Committee. The exhange rate for sterling against the dollar had declined significantly while rates for most continental curren-

[1]This meeting was held over a 2-day period beginning on the afternoon of June 19, 1972, in order to provide more time for the staff presentation concerning the economic situation and outlook and the Committee's discussion thereof.

cies had risen; the spread between sterling and several other currencies had widened to the maximum specified under the European Community monetary agreement. Through early June the U.S. balance of payments was in surplus on both the official settlements basis and the net liquidity basis, as recorded and unrecorded inflows of short-term capital to the United States continued to exceed the deficit on current and long-term capital account. The excess of merchandise imports over exports in April, however, had been even larger than in February and March.

Since the Committee's meeting on May 23, market interest rates on both short- and long-term securities had fluctuated in a narrow range—declining somewhat early in the period and rising again later. Rates had edged down in late May in part because of a Treasury decision not to refund $1.2 billion of bonds maturing on June 15 and expectations in the market that the Treasury would not borrow new funds until late July. Moreover, the combined volume of new publicly issued corporate and State and local government bonds had declined somewhat further in May and appeared likely to remain at a reduced level in June. Later in the period rates moved up again, in part because of the effects on investor expectations of reports that suggested further strengthening in economic activity and indications of some firming in money market conditions. Markets for Treasury notes and bonds also were influenced by discussion of the possibility that the Treasury might undertake an advance refunding. The market rate for 3-month Treasury bills was 3.92 per cent on the day before this meeting compared with 3.79 per cent 4 weeks earlier.

Contract interest rates on conventional new-home mortgages were unchanged from April to May while yields in the secondary market for Federally insured mortgages rose slightly. Inflows of savings funds to nonbank thrift institutions continued to moderate.

At commercial banks, business loans outstanding expanded in May at about the stepped-up rate of April, and real estate and consumer loans continued to grow rapidly. Banks also added a substantial amount to their holdings of securities, especially securities of State and local governments.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) slowed further in May. However, inflows of savings funds to commercial banks increased, after having fallen off in the preceding 3 months, and growth stepped up somewhat in the more broadly defined money stock (M_1 plus commercial bank time and savings deposits other than large-denomination CD's, or M_2). Over the April–May period, M_1 and M_2 grew at annual rates of about 6 and 8 per cent, respectively, compared with rates of about 9 and 13 per cent in the first quarter of 1972.[2] Expansion in the bank credit proxy—daily-average member bank deposits, adjusted to include funds from nondeposit sources—remained rapid as banks, especially those experiencing strong demands for business loans, acted aggressively to increase the volume of large-denomination CD's outstanding.

System open market operations since the May 23 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in the May–June period between 7.5 and 11.5 per cent and growth in the monetary aggregates at rates somewhat slower than those recorded earlier this year, while avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. It appeared at present that RPD's would grow over the May–June period at a rate of about 7 per cent. The average Federal funds rate had been slightly below 4½ per cent since the beginning of June, compared with about 4¼ per cent in May. In the 4 weeks ending June 14 member bank borrowings had averaged about $115 million, approximately the same as in the preceding 5 weeks.

As at its May meeting, the Committee agreed that the economic situation called for moderate growth in the monetary aggregates over the months ahead. After taking account of recent changes in deposits and the 2-week lag in reserve requirements, the Committee decided to seek growth in RPD's at an annual rate in a range of 4.5 to 8.5 per cent during the June–July period while continuing to avoid sharp fluctuations and large cumulative changes in money market conditions. As before, it was recognized that pursuit of the objective for RPD's might be associated with some firming of money market conditions. The members also decided that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating

[2]Based on the change in the daily-average levels from March to May and from December to March.

significantly from the rates expected, and that account should be taken of capital market developments and possible Treasury financing. As at other recent meetings, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if it appeared that the Committee's objectives and constraints were not being met satisfactorily.

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

> The information reviewed at this meeting, including recent data for such measures of business activity as industrial production, employment, and retail sales, suggests that real output of goods and services is growing at a faster rate in the current quarter than in the two preceding quarters, but the unemployment rate remains high. In May wholesale prices of farm and food products advanced appreciably—after having changed little in April—and the rise in prices of industrial commodities remained substantial. The most recent data suggest some moderation in the pace of advance in wage rates. The U.S. balance of payments has been in surplus in recent weeks on both the official settlements basis and the net liquidity basis. In April, however, the excess of merchandise imports over exports was even larger than in February and March. Some strains have developed in international financial markets recently, involving European currencies.
>
> Growth in the narrowly defined money stock slowed further in May, while growth in the broadly defined money stock stepped up somewhat as inflows of consumer-type time and savings deposits to banks expanded considerably; over the April–May period, growth in both measures of the money stock was well below the high rates in the first quarter of the year. The outstanding volume of large-denomination CD's increased substantially further in May, and expansion in the bank credit proxy remained rapid. In recent weeks, market interest rates have continued to fluctuate in a narrow range.
>
> In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.
>
> To implement this policy, while taking account of possible Treasury financing and developments in capital markets, the Committee seeks to achieve bank reserve and money market conditions

that will support moderate growth in the monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Brimmer, Bucher, Coldwell, Daane, Eastburn, MacLaury, Mitchell, Robertson, Sheehan, Winn, and Treiber. Votes against this action: None.

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

Subsequent to this meeting, on July 6, 1972, Committee members voted to amend this current economic policy directive by adding a reference to international developments in the final paragraph. As amended, that paragraph read as follows:

To implement this policy, while taking account of possible Treasury financing, developments in capital markets, and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Brimmer, Bucher, Coldwell, Daane, Eastburn, MacLaury, Robertson, Sheehan, Winn, and Treiber. Votes against this action: None.

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

In the 3 days preceding this action, foreign central banks had acquired large amounts of dollars in the process of maintaining exchange rates for their currencies within the internationally agreed margins. The System Account Manager advised that, insofar as the investment of these and any additional funds that might be acquired by the foreign central banks took the form of purchases of U.S. Treasury bills in the market, they would tend to exert downward pressures on bill rates. In the interests of the U.S. balance of payments and international confidence in the dollar, the members decided that open market operations should be conducted with a view to avoiding significant declines in bill rates, insofar as that was consistent with the objectives agreed upon by the Committee on June 20, 1972. Specifically, it was decided that (1) to the extent feasible, reserve additions required to meet the Committee's objectives should be made by means other than purchases of Treasury bills, and (2) foreign official demands for bills, if heavy, should be met to the extent feasible by sales of bills from the System's portfolio, with any undesired reserve effects offset by other means. The members agreed that the directive should be amended to affirm the Committee's intention to authorize such operations.

In casting their affirmative votes, a number of members indicated that while they believed the authorization desirable they thought it should be used with restraint. Mr. Brimmer noted that he favored the action not only on the international grounds cited but also because he thought a significant decline in bill rates would have adverse domestic implications.

MEETING HELD ON JULY 18, 1972

Current economic policy directive.

The information reviewed at this meeting suggested that growth in real output of goods and services in the second quarter of 1972 had been much faster than the annual rates of between 5.5 and 6 per cent recorded in the two preceding quarters and that the rise in prices had slowed considerably from the first to the second quarter of the year. Staff projections suggested that growth in real GNP would remain rapid in the second half, although not so rapid as in the quarter just ended.

In June industrial production continued to expand, reflecting gains in output of business equipment and of materials, but the pace of the expansion—as in May—was well below that in the first 4 months of the year. Total nonfarm payroll employment was unchanged from May, following three sizable monthly increases. Although employment in manufacturing declined somewhat, the average factory workweek remained relatively high. The unemployment rate dropped to 5.5 per cent from 5.9 in May, but the decline was concentrated among younger workers and might have reflected in part seasonal adjustment problems at the end of the school year. Retail sales declined, according to the advance report, after having increased sharply in May; sales in the second quarter as a whole were substantially higher than in the first quarter.

Wholesale prices of farm and food products rose considerably further in June, and prices of industrial commodities continued upward at about the average rate of earlier months this year. The advance in hourly earnings of production workers on private nonfarm payrolls, which had slowed in May, remained small in June.

Staff projections of real GNP for the second half of 1972 were generally similar to those of 4 weeks earlier. However, the rate of growth anticipated was less rapid than that in the second quarter, which now appeared to have been substantially greater than had been expected. It was anticipated that the rise in disposable personal income in the second half would be somewhat faster than in the second quarter and that expansion in consumption expenditures would remain strong—with the recently enacted increase of 20 per cent in social security benefits contributing to the gains in the fourth quarter. It was still expected that State and local government purchases of goods and services would increase substantially; that business capital outlays would rise moderately and inventory investment appreciably; and that residential construction would level off.

In foreign exchange markets, speculation intensified in mid-June. The United Kingdom lost a substantial amount of reserves in supporting its exchange rate, and early on June 23 it announced that the rate for sterling would be allowed to float and that its exchange markets would be closed for 2 days. Uncertainty and speculation then focused on the dollar and led to the closing of official markets in all major countries—although in some European countries, not before central banks had acquired a substantial amount of dollars in the process of maintaining their currencies within the limits of the Smithsonian Agreement. When exchange markets were reopened around the end of June, controls on capital inflows into some countries were tighter. At the time of this meeting of the Committee, speculative pressures against the dollar had abated somewhat, but exchange rates for most major foreign currencies were at or close to their ceilings against the dollar. The rate for sterling had declined about 5 per cent from the level prevailing before it was allowed to float.

U.S. merchandise exports increased in May while imports changed little, and the trade deficit receded from the exceptionally large figure in April. The average deficit in the April–May period, however, was substantially greater than that in the first quarter of the year.

Since the last meeting of the Committee, interest rates on most short-term market securities had risen somewhat, partly in response to gradual firming in money market conditions. Rates on shorter-term Treasury bills were an exception, reflecting anticipations of demands for Treasury securities by those foreign official institutions that had been acquiring dollars; at 3.92 per cent on the day before this meeting, the market rate on 3-month bills was unchanged from 4 weeks earlier.

In markets for long-term securities, interest rates on corporate and State and local government bonds rose somewhat in the latter part of June but declined again in early July; at the time of this Committee meeting yields on long-term bonds generally were little changed from 4 weeks earlier. The combined volume of new publicly issued corporate bonds and of State and local government bonds changed little from May to June; the volume appeared likely to expand in July.

Contract interest rates on conventional new-home mortgages and yields in the secondary market for Federally insured mortgages both were unchanged from May to June. Inflows of savings funds to nonbank thrift institutions increased somewhat in June, but the average rate of inflows in the second quarter of the year was well below the exceptional pace in the first quarter.

At commercial banks, real estate and consumer loans outstanding continued to expand rapidly in June, but business loans declined—after having expanded substantially throughout the first 5 months of the year—and banks reduced their holdings of securities other than those of the U.S. Government. Despite the measured decrease in business loans, part of which may have been attributable to seasonal adjustment problems, loan demand was reported to have remained basically strong. In late June most major banks raised their prime rates from 5 to 5¼ per cent.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) in June remained close to the relatively slow rate recorded in May. Sluggishness in June, however, may have reflected temporary effects of the speculation in foreign exchange markets and outflows of funds from the United States after midmonth, and weekly data suggested a sharp increase in the rate of expansion in early July. Growth in the more broadly defined money stock (M_1 plus commercial bank time and savings deposits other than large-denomination CD's, or M_2) remained substantial in June, as inflows of consumer-type time and savings deposits to banks continued at a relatively high rate. Expansion in the bank credit proxy—daily-average member bank deposits, adjusted to include funds from nondeposit sources—slowed sharply, reflecting a marked reduction in U.S. Government deposits.

System open market operations in the period since the June 19–20 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in the June–July period of between 4.5 and 8.5 per cent, while avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. Since July 6, when Committee members voted to amend the current economic policy directive to take international developments into account, operations also had been conducted with a view to providing and absorbing reserves in ways that avoided significant declines in Treasury bill rates that might otherwise have resulted from heavy foreign official demands for bills. It appeared at present that RPD's would grow over the June–July period at a rate of about 8.5 per cent. The Federal funds rate rose to about 4⅝ per cent from just under 4½ per cent shortly before the preceding meeting. In the 4 weeks ending July 12 member bank borrowings averaged about $180 million, compared with about $115 million in the preceding 4 weeks.

The Committee agreed that the economic situation continued to call for moderate growth in the monetary aggregates over the months ahead, and it decided to seek growth in RPD's at an annual rate in a range of 3 to 7 per cent during the July–August period while continuing to avoid sharp fluctuations and large cumulative changes in money market conditions. The members also decided that account should be taken of the forthcoming Treasury financing, of developments in capital markets, and of international developments, and that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating significantly from the rates expected. As at other recent meetings, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if it appeared that the Committee's objectives and constraints were not being met satisfactorily.

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 at a faster rate in the second quarter than in the two preceding quarters. In June the unemployment rate declined, but it was still substantial. Wholesale prices of farm and food products advanced appreciably further in June and the rise in prices of industrial commodities remained substantial. Recent data suggest moderation in the pace of advance in wage rates. In foreign exchange markets, following disturbances leading to a floating of the pound sterling, the dollar has come under pressure and the reserves of European central banks have increased sharply. In May,

the excess of merchandise imports over exports remained large, though a little less than in April.

Growth in the narrowly defined money stock was relatively slow in May and June, but preliminary weekly data suggest a pickup in early July. Growth in the broadly defined money stock was more substantial as inflows of consumer-type time and savings deposits to banks remained strong. Expansion in the bank credit proxy slowed sharply in June as U.S. Government deposits declined markedly. In recent weeks, long-term interest rates have changed little; rates in short-term markets have advanced, except for those on shorter-maturity Treasury bills.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing, developments in capital markets, and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Bucher, Daane, Eastburn, MacLaury, Robertson, Sheehan, and Winn. Vote against this action: Mr. Coldwell.

Absent and not voting: Mr. Mitchell.

Mr. Coldwell dissented from this action because in his judgment average growth in bank reserves within the specified range for July and August and the associated expansion in the money supply might build a base for excessive economic stimulation. He was concerned about the effects both on the domestic economic situation, in the context of heavy stimulation from fiscal policy, and on international financial problems.

MEETING HELD ON AUGUST 15, 1972

Current economic policy directive.

Preliminary estimates of the Commerce Department indicated that real output of goods and services had grown at an annual rate of about 9 per cent in the second quarter—compared with upward revised rates of about 6.5 per cent in the two preceding quarters—and that the rise in prices in the private economy had moderated. Staff projections suggested that economic growth would remain rapid in the second half of the year—although it would slow appreciably from the second-quarter rate. It was expected that growth would be somewhat more rapid in the fourth than in the third quarter.

In July retail sales rose sharply—according to the advance report—and more than recovered the decline in June. However, industrial production registered only a small increase and employment in nonfarm establishments declined somewhat, in part because floods following tropical storm Agnes curtailed output and employment in the eastern part of the country. The over-all unemployment rate remained at 5.5 per cent, as the rate declined for men aged 25 and over but increased for those under 25.

The advance in hourly earnings of production workers on private nonfarm payrolls, which had been slow in May and June, was moderately faster in July. The rise in wholesale prices of industrial commodities was small, but prices of farm and food products rose sharply further, registering their largest monthly increase of the year to date. In June the consumer price index rose very little.

Staff projections suggested that expansion in consumption expenditures and in business inventory investment would be strong in the current quarter, although less so than in the second quarter; that business capital outlays would rise less rapidly; and that residential construction would level off. For the fourth quarter, it was anticipated that consumption expenditures would be stimulated by payment of the 20 per cent increase in social security benefits, scheduled to begin in early October, and that growth in State and local government purchases of goods and services would be increased if, as assumed, Federal revenue sharing was enacted.

In foreign exchange markets, relative calm had been restored since the July meeting of the Committee, following a month of turbulence during which the United Kingdom had allowed sterling to float and some European countries had acquired substantial amounts of dollars in the process of keeping exchange rates for their currencies within the limits of the Smithsonian Agreement. After a meeting on July 17–18, the Finance Ministers of the European Community reaffirmed their intention to maintain the exchange rates and margins of the Smithsonian Agreement, and speculation on a joint European Community float against the dollar subsided. Also in support of the Smithsonian Agreement, the Federal Reserve renewed operations in the foreign exchange markets and reactivated its swap network with other central banks. In subsequent weeks, the reserves of the central banks of most industrial countries changed little, and exchange rates for some major currencies backed away from their upper limits.

U.S. merchandise exports, imports, and the trade deficit changed little in June. For the second quarter as a whole, the deficit was substantially greater than that in the first quarter of the year.

On July 26 the Treasury announced that in its mid-August refunding it would offer holders of notes and bonds maturing during the remainder of 1972 an opportunity to exchange their holdings for the following issues: a 3½-year, 5⅞ per cent note priced to yield 5.96 per cent; a 7-year, 6¼ per cent note at par; and a 12-year, 6⅜ per cent bond priced to yield 6.45 per cent. In addition, holders of securities maturing in November 1974 and February 1975 were given the opportunity to exchange them for the longer-term note and the bond. This combination of a refunding and pre-refunding was highly successful. Of the $19.6 billion of eligible securities held by the public, about $8 billion were exchanged for the new issues—$3.9 billion for the shorter-term note, $3 billion for the longer-term note, and $1.1 billion for the bond. Only about $600 million or 26 per cent of the publicly held issues maturing this August were redeemed for cash.

Since the Committee's meeting on July 18, market interest rates on both short- and long-term securities had declined somewhat on balance, in part because the Treasury's over-all demands for new cash in recent months had fallen short of those that had been widely expected. Moreover, the combined volume of new publicly issued corporate bonds and of State and local government bonds had declined somewhat from June to July, and a further decline had appeared in prospect for August.

In markets for short-term securities, the absence of a short-term issue in the Treasury's August financing had exerted some downward pressure on rates for Treasury bills and private instruments. The market rate on 3-month bills was 3.87 per cent on the day before this meeting, compared with 3.92 per cent on the day before the July meeting and an interim low of 3.77 per cent at the beginning of August.

Contract interest rates on conventional mortgages on new homes rose slightly from June to July, but rates on the much larger volume of new loans on existing homes remained stable. Yields also were stable in the secondary market for Federally insured mortgages. Inflows of savings funds to nonbank thrift institutions increased further in July and were substantially above the second-quarter rate.

At commercial banks, real estate and consumer loans continued to expand rapidly in July, and outstanding business loans rose substantially after having declined in June. Banks reduced their holdings of U.S. Government securities, as the Treasury's net borrowing demands were smaller than customary in July.

Growth in the narrowly defined money stock (private demand deposits plus currency in circulation, or M_1) was unusually rapid in July following low rates of growth in May and June. Expansion in the more broadly defined money stock (M_1 plus commercial bank time and savings deposits other than large-denomination CD's, or M_2) was a little faster in July than in June, despite a marked reduction in inflows of consumer-type time and saving deposits to banks. Growth was substantial in the bank credit proxy—daily-average member bank deposits, adjusted to include funds from nondeposit sources—reflecting not only a sharp rise in private demand deposits but also an increase in the outstanding volume of large-denomination CD's.

System open market operations in the period since the July 18 meeting of the Committee had been directed at fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate of between 3 and 7 per cent in the July–August period, while avoiding sharp day-to-day fluctuations and large cumulative changes in money market conditions. Through most of the period it had appeared that growth in RPD's might exceed the target range. For that reason, and also because the monetary aggregates were expanding rapidly, the System undertook to slow the increase in reserves to the extent feasible in light of the large-scale Treasury refunding then in process. At present it appeared that RPD's would grow over the July–August period at a rate of about 6.5 per cent. The Federal funds rate had risen from about 4⅝ per cent at the time of the preceding meeting to around 4¾ per cent in recent days. In the 4 weeks ending August 9 member bank borrowings averaged about $250 million, compared with about $180 million in the preceding 4 weeks.

The Committee agreed that the economic situation continued to call for moderate growth in the monetary aggregates over the months ahead. It decided to seek growth in RPD's during the August–September period at an annual rate in a range of 5 to 9 per cent—a rate which was expected to be associated with some moderation in monetary growth. While recognizing that pursuit of the objective for RPD's might be associated with some firming of money market conditions, the Committee agreed that a marked firming, which might precipitate unduly sharp increases in interest rates in a sensitive market atmosphere, should be avoided. The members also decided that in the conduct of operations, account should be taken of developments in capital markets and international developments, and that some allowance should also be made in operations if growth in the monetary aggregates appeared to be deviating significantly from the rates expected. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if financial developments suggested that the Committee's purposes and constraints were not being met satisfactorily.

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 output of goods and services increased at a rapid rate in the second quarter, and continued though less rapid growth appears in prospect for the current quarter. The unemployment rate was lower in June and July, but it was still substantial. The pace of advance in wage rates has slowed on balance in recent months, and the rate of increase in average prices of all goods and services in the private economy

moderated in the second quarter. In July, the rise in wholesale prices of industrial commodities slowed, but wholesale prices of farm and food products rose sharply further. Since mid-July foreign exchange market conditions have been quiet and the central bank reserves of most industrial countries have changed little. In June, the large excess of U.S. merchandise imports over exports persisted.

The narrowly defined money stock grew at an unusually rapid rate in July, following relatively slow growth in May and June. Growth in the broadly defined money stock remained substantial, although inflows of consumer-type time and savings deposits to banks slowed appreciably. The bank credit proxy expanded sharply in July, reflecting strength in both private demand deposits and large-denomination CD's. In recent weeks, interest rates on most market securities have declined somewhat on balance, and the Treasury completed a highly successful refunding.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in capital markets and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support moderate growth in monetary aggregates over the months ahead.

> Votes for this action: Messrs. Burns, Hayes, Brimmer, Bucher, Coldwell, Daane, Eastburn, MacLaury, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.

MEETING HELD ON SEPTEMBER 19, 1972

Current economic policy directive.

The information reviewed at this meeting suggested that growth in real output of goods and services in the third quarter would be substantial although well below the annual rate of 9.4 per cent recorded in the second quarter. Growth was expected to be more rapid in the fourth quarter than in the third and to remain at a fast pace in the first half of 1973.

In August retail sales continued to expand, according to the advance report, and they were substantially greater than the monthly average in the second quarter. Industrial production rose moderately, after having increased little in June and July; part of the gain was attributable to recovery from the effects of tropical storm Agnes. Nonfarm payroll employment, which had been adversely affected by strikes as well as by the storm, rose appreciably in August. Reflecting a large increase in the labor force as well as in employment, the unemployment rate—at 5.6 per cent—was essentially unchanged from the rate in June and July.

The advance in hourly earnings of production workers on private nonfarm payrolls in August, as in July, was moderately faster than in the second quarter. The rise in wholesale prices of farm products and foods remained rapid, and the advance in prices of industrial commodities, which had slowed in July, resumed the somewhat faster pace of earlier months this year. In July the increase in the consumer price index was larger than in the immediately preceding months, chiefly because of a sharp rise in retail prices of foods.

Staff projections continued to suggest that expansion in consumption expenditures would be strong in the fourth quarter, in part because of the 20 per cent increase in social security benefits scheduled to begin in early October. It was also anticipated that growth in State and local government purchases of goods and services would be raised by enactment of Federal revenue sharing; that business fixed investment would continue to increase, in line with recent surveys; that residential construction would level off; and that, in response to sustained expansion in final takings of goods, inventory investment would rise appreciably further.

Foreign exchange markets had remained relatively quiet since mid-August. An increase in short-term interest rates in the United States relative to those in other major countries had contributed to a further strengthening of the dollar against major European currencies, and central bank reserves of most industrial countries had continued to change little. In July both U.S. merchandise imports and exports increased, and the trade deficit was virtually unchanged from the high level of the two preceding months.

Market interest rates generally advanced in the interval between the August and September meetings of the Committee. Increases in rates were significantly larger for short-term than for long-term securities and were greatest for Treasury bills. Bill rates had been unusually low relative to other short-term rates, reflecting mainly demands for bills associated with foreign central bank acquisitions of dollars and with the absence of a short-term issue in the Treasury's August refunding. In the intermeeting period, however, foreign central banks sold bills on balance, and Treasury financing operations added to the market supply of bills. The impact of the change in supply–demand relationships was magnified when a firming in money market conditions just before the Labor Day weekend strengthened market expectations of further increases in interest rates in an environment of strong economic expansion. On the day before this meeting the market rate on 3-month bills was 4.65 per cent, compared with 3.87 per cent on the day before the August meeting.

In markets for long-term securities, increases in rates were greater for Treasury issues than for other securities, chiefly because the rise in short-term rates induced dealers to reduce their inventories of the new longer-term issues acquired in the Treasury's August refunding. The volume of new publicly issued corporate bonds had declined moderately from July to August, and a large decline appeared in prospect for September. While the volume of new State and local government bonds had increased somewhat in August, it appeared likely to decline again in September.

Contract interest rates on conventional new-home mortgages and yields in the secondary market for Federally insured mortgages were stable from July to August. Inflows of savings to nonbank thrift institutions slowed from the rapid rates in June and July.

At commercial banks, outstanding business loans increased sharply further in August, and real estate and consumer loans continued to expand rapidly. Banks again reduced their holdings of U.S. Government securities—as the Treasury's net borrowing demands remained smaller than customary for that season of the year—but they increased their holdings of other securities. Late in the month, in response to the strength in loan demands and to increases in short-term market rates of interest, most banks raised their prime rates from 5¼ to 5½ per cent.

Growth in the narrowly defined money stock *(M_1)*,[1] which was rapid in July following relatively slow growth on the average in May and June, fell back in August. Expansion in the more broadly defined money stock *(M_2)*[2] and in the bank credit proxy[3] also slowed, despite substantial increases in consumer-type time and savings deposits and in the outstanding volume of large-denomination CD's. In late August and early September, however, the money stock grew more rapidly than it had on the average in August.

System open market operations in the period since the August 15 meeting had been guided by the Committee's objective of fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate of between 5 and 9 per cent in the August–September period, subject to the proviso that money market conditions should not be permitted to firm markedly. Pursuit of the RPD target was complicated by the need to absorb reserves at a time when the market supply of Treasury bills was increasing. Early in the period, RPD's—and the monetary aggregates—appeared to be expanding rapidly. As the System acted to restrain growth in reserves, short-term interest rates began to rise sharply and financial markets became increasingly sensitive; this was especially evident just before the Labor Day weekend when a number of banks misjudged their reserve needs and bid the Federal funds rate up as high as 5½ per cent. In order to avoid a marked firming in money market conditions and unduly sharp increases in interest rates, for a time the System supplied reserves more generously.

---

[1]Private demand deposits plus currency in circulation.

[2]M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[3]Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

At the time of this meeting it appeared that growth in RPD's would be quite rapid in September, and that the average rate of growth in the August–September period would exceed the upper limit of the target range by a significant amount. However, most of the overage evidently would reflect a temporary increase in excess reserves—and member bank borrowings—around the Labor Day weekend. Apart from the rise in excess reserves, growth in RPD's appeared to be at about the upper limit of the target range. The Federal funds rate, which had been around 4¾ per cent at the time of the preceding meeting, currently was about 5 per cent. In the 5 weeks ending September 13 member bank borrowings averaged about $440 million, compared with about $250 million in the preceding 4 weeks.

The Committee agreed that the economic situation called for growth in the monetary aggregates in coming months at rates less rapid than those that now appeared likely to be recorded for the third quarter. At the same time, the members noted that conditions in financial markets were still highly sensitive. They also noted that the prospective relationships among bank reserves, monetary aggregates, and money market conditions were more than usually uncertain because of the difficulties of forecasting the behavior of banks during the period of adjustment to the amendments to Regulations D and J that were scheduled to become effective September 21, 1972. The situation was further complicated by uncertainty as to whether implementation of the regulatory actions would be delayed as a consequence of certain court proceedings currently under way.

The Committee took note of a staff analysis suggesting that an average rate of expansion in RPD's in September and October in a range equivalent to 9.5 to 13.5 per cent[4] would be likely to lead to more moderate growth in monetary aggregates over the months ahead. The members decided to seek an RPD growth rate

[4]The RPD range originally considered by the Committee incorporated adjustments for the estimated effects that the scheduled changes in the Board's Regulations D and J would have on the prospective relationship between growth rates in RPD's and in the monetary aggregates. However, it was agreed that those adjustments would be inappropriate if there were a delay in implementing the changes, and since such a delay in fact occurred, the adjustments are omitted in the figures cited.

in that range—preferably, in the lower part—unless disturbances arose in financial markets or unless growth rates in the monetary aggregates appeared to be falling far short of expectations. In view of the sensitive state of financial markets and the uncertainties associated with Regulations D and J, they also decided that the System Account Manager should have more than the usual degree of discretion in making operating decisions and that he should give more than customary attention to money market conditions, while continuing to avoid marked changes in such conditions. It was agreed that account also should be taken of international financial developments, and it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if it appeared that the Committee's objectives and constraints were not being met satisfactorily.

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

> The information reviewed at this meeting suggests a substantial increase in real output of goods and services in the current quarter, although well below the unusually large rise recorded in the second quarter. In July and August, wages and prices advanced somewhat more rapidly on balance than in the immediately preceding months, while the unemployment rate remained substantial. Foreign exchange market conditions have remained quiet in recent weeks and the central bank reserves of most industrial countries have continued to change little. In July, the large excess of U.S. merchandise imports over exports persisted.
>
> In August on average, growth slowed in the narrowly and broadly defined money stock and in the bank credit proxy, but in recent weeks the money stock has been expanding more strongly. Since mid-August, interest rates on Treasury bills have increased sharply, while yields on most other market securities have advanced more moderately.
>
> In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.
>
> To implement this policy, while taking special account of the effects of possible bank regulatory changes, developments in credit

markets, and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support more moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Bucher, Coldwell, Daane, Eastburn, Mayo, Mitchell, and Sheehan. Votes against this action: Messrs. MacLaury and Robertson.
Absent and not voting: Mr. Winn. (Mr. Mayo voted as Mr. Winn's alternate.)

Mr. MacLaury dissented from this action because he had become increasingly disturbed by the rapid rates of growth in the aggregates, given the prospective strength of the economy, and he felt that the Committee's current operating procedures did not assure that money market conditions would be permitted to tighten sufficiently to slow this excessive monetary growth in the near future.

Mr. Robertson dissented because of his belief that with the existing potentiality for increased inflationary pressures, the Committee was not doing enough to curb the rate at which reserves were being fed into the banking system by the Federal Reserve and to slow down the rate of growth in the monetary aggregates. In his view, the failure to do so might result in a new ground swell of inflation later on.

MEETING HELD ON OCTOBER 17, 1972

Current economic policy directive.

The information reviewed at this meeting suggested that expansion in real output of goods and services in the third quarter had been substantial, although well below the unusually large gain recorded in the second quarter. Staff projections continued to suggest that growth would be more rapid in the fourth than in the third quarter and that it would remain at a fast pace in the first half of 1973.

In September industrial production rose appreciably for the second successive month, and nonfarm payroll employment also continued to expand at a substantial rate. However, the labor force again grew at about the same pace as total employment and—at 5.5 per cent—the unemployment rate was essentially unchanged from its level in the three preceding months. Retail sales declined in September, but because of the sizable gains that had been recorded in July and August, sales were considerably higher in the third quarter than in the second.

Average hourly earnings of production workers on nonfarm payrolls continued to advance at a moderate pace in September, and the rise in wholesale prices of both industrial commodities and farm and food products slowed appreciably. In August the total consumer price index rose at a moderate rate although retail prices of foods increased substantially further.

Staff projections continued to suggest that expansion in consumption expenditures would be strong in the fourth quarter, in part because of the 20 per cent increase in social security benefits beginning in early October. It was still anticipated that State and local government purchases of goods and services would grow somewhat more rapidly; that business fixed investment would continue to expand; that residential construction would level off; and that inventory investment would increase further. It was expected, moreover, that defense expenditures would rise following a marked drop in the third quarter.

In foreign exchange markets the dollar had strengthened further against most European currencies since mid-September. Inflows of capital to the United States—reflecting both improved confidence in the dollar and a firming in short-term interest rates in this country relative to those abroad—had continued to offset the persistent deficit in the current account of the U.S. balance of payments, and the central bank reserves of most industrial countries had continued to change little. In August U.S. merchandise exports expanded more than imports, and the trade deficit declined somewhat.

Long-term interest rates had been stable in recent weeks. Markets generally had been influenced by growing optimism about peace in Vietnam and by the possibility of enactment of a ceiling on Federal expenditures, and bond markets also had been affected by a sharp drop in the volume of new publicly issued corporate bonds from August to September. Although the volume of such issues appeared likely to rebound in October, it was expected to be relatively small for the fourth quarter as a whole. Interest rates on short-term securities had edged higher, in part because the Treasury had increased the size of its monthly auctions of 1-year bills. On the day before this meeting the market rate on 3-month bills was 4.80 per cent, compared with 4.65 per cent on the day before the September meeting.

Contract interest rates on conventional mortgages rose slightly from August to September, but yields in the secondary market for Federally insured mortgages changed little. Inflows of savings funds to nonbank thrift institutions remained substantial in September, although well below the rapid pace in June and July.

At commercial banks, outstanding real estate and consumer loans continued to grow rapidly in September. However, expansion in outstanding business loans slowed sharply from the rapid pace in August, apparently in association with less than the usual amount of corporate borrowing to meet September tax payments. Banks increased their holdings of U.S. Government securities—after having reduced them in July and August—and continued to add to their holdings of other securities. In early October, primarily in response to increases in short-term market rates of interest, most banks raised their prime rates from 5½ to 5¾ per cent.

Both the narrowly defined money stock (M_1)[1] and the more broadly defined money stock (M_2)[2] grew in September at about

---

[1]Private demand deposits plus currency in circulation.

[2]M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

the moderate rates recorded in August. Over the third quarter, however, M_1 and M_2 grew at rates of about 8.5 and 9.5 per cent, respectively, compared with rates of about 5.5 and 8.5 per cent over the second quarter.[3] Growth in the bank credit proxy[4] was somewhat more rapid in September than in August, mainly because of an increase in U.S. Government deposits.

System open market operations in the period since the September 19 meeting had been guided by the Committee's decision to seek growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in a range of 9.5 to 13.5 per cent in the September–October period—in order to support more moderate growth in the monetary aggregates in the months ahead—unless disturbances arose in financial markets or unless growth in the monetary aggregates appeared to be falling far short of expectations. In fact, financial markets were calm and both M_1 and M_2 seemed to be growing moderately. At the time of this meeting it appeared that growth in RPD's over the September–October period would be close to the lower limit of the target range. The Federal funds rate was about 5 per cent in the days before this meeting, unchanged from the level prevailing just before the preceding meeting. In the 4 weeks ending October 11 member bank borrowings averaged about $560 million, compared with about $440 million in the preceding 5 weeks.

The Committee agreed that the economic situation called for growth in the monetary aggregates over the months ahead at rates less rapid than those recorded over the third quarter as a whole. Taking account of a staff analysis of the relationship between reserves and the monetary aggregates, the Committee decided that its objectives for the aggregates would be fostered by growth in RPD's during the October–November period at an annual rate within a range of 6 to 11 per cent. Accordingly, the members agreed that open market operations should be directed at constraining RPD growth within that range, while continuing to avoid marked changes in money market conditions. The members also

[3]Growth rates cited are 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.

[4]Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

decided that account should be taken of the effects of bank regulatory changes, should they be implemented; of Treasury financing operations; and of developments in credit markets.[5] Moreover, they agreed that some allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating from an acceptable range. As at other recent meetings, it was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

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

> The information reviewed at this meeting suggests a substantial increase in real output of goods and services in the third quarter, although well below the unusually large rise recorded in the second quarter. In September wages and prices advanced moderately, while the unemployment rate remained substantial. In the U.S. balance of payments, the current account deficit has been largely offset by capital inflows in recent weeks, and the central bank reserves of most industrial countries have continued to change little. In August, the excess of U.S. merchandise imports over exports declined somewhat.
>
> The narrowly and broadly defined money stock expanded at moderate rates in August and September, following large increases in July, but the bank credit proxy continued to grow rapidly. Since mid-September, short-term interest rates have increased somewhat, while yields on most long-term securities have changed little.
>
> In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

[5]It was noted at the meeting that the amendments to Regulations D and J, initially scheduled to become effective on September 21, 1972, but postponed as a result of court proceedings, might be implemented during the October–November period. Following the Board's decision on October 24 to implement the amendments as of November 9, 1972, the range of tolerance for the RPD growth rate was modified to 9 to 14 per cent in a technical adjustment to take account of the effects of those regulatory actions on the relationship between reserves and the monetary aggregates.

To implement this policy, while taking account of the effects of possible bank regulatory changes, Treasury financing operations, and developments in credit markets, the Committee seeks to achieve bank reserve and money market conditions that will support more moderate growth in monetary aggregates over the months ahead than recorded in the third quarter.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Bucher, Coldwell, Daane, Eastburn, MacLaury, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.

MEETING HELD ON NOVEMBER 20–21, 1972[1]

Current economic policy directive.

The information reviewed at this meeting suggested that real output of goods and services, which had expanded at an annual rate of about 6 per cent in the third quarter, was growing more rapidly in the current quarter. Moreover, staff projections continued to suggest that growth would remain at a fast pace in the first half of 1973.

In October expansion in industrial production remained rapid, reflecting widespread advances among consumer goods, business equipment, and materials. Employment in manufacturing again rose substantially, contributing to another large gain in total nonfarm payroll employment. As in the preceding 3 months, however, the labor force also increased appreciably, and the unemployment rate—at 5.5 per cent—was stable. Retail sales, according to the advance report, continued to expand in October about as fast as they had from the second to the third quarter. Housing starts remained near the high level of August and September.

The rise in wholesale prices was exceptionally small in October as industrial commodities were virtually unchanged, on the average, and farm and food products rose little. Among industrial commodities, prices of a number of materials advanced but prices of automobiles and trucks declined. Average hourly earnings of production workers—which had risen sharply in September, according to revised data—continued to advance at a faster rate than earlier in the year. In September the consumer price index increased considerably, reflecting a sharp rise in foods and substantial increases among other commodities; services continued upward at a slow pace.

Staff projections suggested that strong expansion in consumption expenditures would continue in the first half of 1973, in part because of Treasury refunds of the unusually large overwithholdings of personal income taxes in 1972. It was also anticipated that business

[1]This meeting was held over a 2-day period beginning on the afternoon of November 20, 1972, in order to provide more time for the staff presentation concerning the economic situation and outlook and the Committee's discussion thereof.

fixed investment would rise at a fairly fast pace, as suggested by recent surveys of business spending plans; that State and local government purchases of goods and services would continue to grow rapidly; and that inventory investment would rise somewhat further in response to sustained expansion in final sales of goods.

In foreign exchange markets the dollar had strengthened further against most European currencies in recent weeks, but the Japanese yen had remained at its ceiling rate against the dollar. The persistent deficit in the current account of the U.S. balance of payments had been offset in large part by continuing inflows of private capital to the United States.

In September U.S. merchandise imports were stable while exports declined somewhat, and the trade deficit remained large. From the second to the third quarter, imports rose somewhat less than exports, and most of the rise in imports reflected increases in industrial materials in association with the strong growth in domestic business activity.

On October 25 the Treasury announced that in its mid-November financing it would auction a 4-year, 6¼ per cent note to redeem $1.3 billion of maturing notes and to raise $1.7 billion of new cash; the notes were issued on November 15 at an average price to yield 6.20 per cent. The October announcement also indicated that the Treasury would meet the bulk of its large December–January cash requirements through a combination of bill and note issues. Later, the Treasury announced that on November 17 and 29 it would auction a total of $4.5 billion of tax-anticipation bills with April and June maturities.

The more favorable climate in securities markets that had emerged in mid-October—in response to optimism about peace in Vietnam and prospects that Federal expenditures would be held down—had continued in recent weeks, and market rates of interest generally had declined. Decreases had been greater in long-term than in short-term markets, reflecting moderation in over-all demands for long-term funds. Although the volume of new publicly issued corporate bonds rebounded in October from a sharply reduced level in September, as had been expected, the volume of such issues appeared likely to fall again in November.

In markets for short-term securities, declines in rates had been limited, although Treasury financing was not so large as had been anticipated. On the day before this meeting the market rate on 3-month Treasury bills was 4.76 per cent, compared with 4.80 per cent on the day before the October meeting.

Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages both were virtually unchanged in October. Although inflows of savings funds to nonbank thrift institutions slowed somewhat from September to October, they remained substantial.

At commercial banks, expansion in outstanding business loans was again rapid in October, after having slowed sharply in September, and growth in most other categories of loans also was strong. However, bank holdings of securities declined, reflecting a sizable drop in portfolios of U.S. Government securities.

Growth in both the narrowly defined (M_1)[2] and the more broadly defined (M_2)[3] money stock changed little in October from the moderate rates in the preceding 2 months and remained well below the rates of about 8.5 per cent for M_1 and 9.5 per cent for M_2 recorded over the third quarter as a whole.[4] Expansion in the bank credit proxy[5] changed little from the rates in the preceding 2 months, although the increase in the outstanding volume of large-denomination CD's was the smallest since March.

System open market operations in the recent period had been guided by the Committee's decision at its October meeting to seek bank reserve and money market conditions that would support more moderate rates of monetary growth than those recorded in the third quarter. System operations had been directed toward maintaining growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in a range of 9 to 14 per cent in the October–November period, while continuing to avoid marked changes in money market conditions and taking account of Treasury

[2]Private demand deposits plus currency in circulation.

[3]M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[4]Growth rates cited are 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.

[5]Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

financing operations and bank regulatory changes.[6] Through most of the intermeeting period the rate of growth in RPD's had appeared to be within that range, although near the lower limit. Toward the end of the period, available data suggested that growth would fall below the range, and at the time of this meeting it appeared that RPD's would grow over the October–November period at a rate of only about 5.5 per cent. However, the monetary aggregates appeared to be expanding at acceptable rates. To a considerable extent, the shortfall in RPD's occurred because the relationship between reserves and monetary aggregates that evolved after the implementation of the amendment to the Board's Regulation D differed from the relationship that had been expected.

The changes in Regulations D and J, which became effective on November 9, generated considerable uncertainty about the management of reserves, both for member banks and for the System, and the System made heavy use of repurchase agreements and matched sale–purchase transactions for temporary injections and withdrawals of reserves in order to smooth the over-all availability of reserves. Although day-to-day fluctuations in the Federal funds rate were larger than usual, the average rate during the intermeeting period—at a little more than 5 per cent—was about the same as the rate that had prevailed just before the October meeting. In the 5 weeks ending November 15, member bank borrowings averaged about $640 million, compared with about $560 million in the preceding 4 weeks.

The Committee agreed that the economic situation continued to call for growth in the monetary aggregates over the months ahead at rates less rapid than those recorded over the third quarter as a whole. Taking account of a staff analysis of the projected relationship between reserves and the monetary aggregates, the

---

[6] It was noted at the October 17 meeting that the amendments to Regulations D and J might be implemented during the October–November period. Following the Board's decision on October 24 to implement the amendments as of November 9, 1972, the range of tolerance for the RPD growth rate was modified from the original 6 to 11 per cent to 9 to 14 per cent in a technical adjustment to take account of the expected effects of those regulatory actions on the relationship between reserves and the monetary aggregates.

Committee decided that its objectives regarding the aggregates would be served by open market operations directed at fostering growth in RPD's during the November–December period at an annual rate within a range of 6 to 10 per cent, while continuing to avoid marked changes in money market conditions. The members also decided that allowance should be made in the conduct of operations if growth in the monetary aggregates appeared to be deviating from an acceptable range and that account should be taken of the continuing effects of the bank regulatory changes implemented in early November. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

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

The information reviewed at this meeting, including recent data for industrial production, employment, and retail sales, suggests that real output of goods and services is growing more rapidly in the current quarter than in the third quarter. However, the unemployment rate has remained substantial. The increase in wages has been larger in recent months than earlier this year. Consumer prices rose considerably in September, but the October rise in wholesale prices was small. In recent weeks, the current account deficit of the U.S. balance of payments has been offset in large part by capital inflows; while the reserves of Japan have increased substantially further, those of other industrial countries have changed little. In September the excess of U.S. merchandise imports over exports remained large.

In October rates of growth in the monetary aggregates changed relatively little from preceding months, with expansion in the narrowly defined money stock again quite moderate. Since mid-October interest rates generally have declined.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of the effects of recent bank regulatory changes, the Committee seeks to achieve bank reserve and money market conditions that will support more moderate growth in monetary aggregates over the months ahead than recorded in the third quarter.

Votes for this action: Messrs. Burns, Hayes, Brimmer, Bucher, Daane, Eastburn, MacLaury, Mitchell, Robertson, Sheehan, Winn, and Francis. Votes against this action: None.

Absent and not voting: Mr. Coldwell. (Mr. Francis voted as Mr. Coldwell's alternate.)

MEETING HELD ON DECEMBER 19, 1972

Current economic policy directive.

The information reviewed at this meeting suggested that real output of goods and services, which had expanded at an annual rate of 6.3 per cent in the third quarter, was growing at an appreciably faster pace in the current quarter. Staff projections for the first half of 1973 continued to suggest that growth in real output would remain strong, although not so rapid as now seemed indicated for the current quarter.

Industrial production increased substantially further in November and output indexes for September and October were revised upward; expansion over the 3-month period was very rapid. Led by employment gains in manufacturing, total nonfarm payroll employment continued to rise at a fast pace in November. The unemployment rate, which had been virtually stable around 5.5 per cent from June through October, fell to 5.2 per cent in November. Retail sales in November, according to the advance report, remained near the level attained in October, which was sharply above the third-quarter average.

The wholesale price index—which had risen little in October when prices of automobiles and trucks declined—advanced considerably in November, reflecting sizable increases in both industrial commodities and farm and food products. Average hourly earnings of production workers increased little, but their average rate of advance from August to November exceeded the rate earlier in the year. In October consumer prices again rose considerably, in large part because of the annual adjustment in the price measure for health insurance and increases in prices of other consumer services. Retail as well as wholesale prices of automobiles declined, and prices of foods increased little.

Staff projections continued to suggest that expansion in consumption expenditures would remain strong in the first two quarters of 1973, in part because of large refunds of personal income taxes withheld in 1972. Recent surveys of business spending plans reinforced earlier expectations that fixed investment would rise at a fast pace throughout the first half of 1973. It was also anticipated that business inventory investment would rise somewhat further and that State and local government purchases of goods and services would continue to grow rapidly but that residential construction outlays would level off and then turn down.

The deficit in the over-all U.S. balance of payments had continued large in recent months. In October, however, merchandise exports had risen more than imports, and the average trade deficit in September and October—although still substantial—had been moderately below the high levels of last spring and summer. In foreign exchange markets over recent weeks, the dollar had remained firm against major currencies other than the Japanese yen.

Interest rates on short-term securities had advanced since the Committee's meeting in late November, in response to seasonal expansion in private credit demands, a large increase in market supplies of Treasury bills, and some firming in money market conditions; on the day before this meeting the market rate on 3-month Treasury bills was 5.17 per cent, up from 4.76 per cent 4 weeks earlier. Rates on most types of longer-term securities also had advanced, although the volume of new public offerings of corporate and State and local government bonds had declined moderately from October to November and appeared likely to fall further in December, in part because of the holidays.

In mid-December the Treasury announced that on December 20 it would auction \$2 billion of 2-year, 5⅞ per cent notes for payment on December 28. Moreover, the Treasury indicated that in early January it would offer \$500 million to \$750 million of 20- to 30-year bonds.

Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages remained stable in November. From October to November inflows of savings funds to nonbank thrift institutions continued to slow, although inflows were still large by historical standards.

At commercial banks, loans outstanding to businesses and to most other types of borrowers continued to expand at rapid rates in November. Bank holdings of U.S. Government securities—which had declined in October—rose in association with a substantial increase in Treasury deposits that resulted in part from two Treasury financings during the month. Banks also added a substantial amount to their portfolios of other securities.

Growth in the narrowly defined money stock (M_1)[1]—which had

[1]Private demand deposits plus currency in circulation.

been slow in October—increased appreciably in November but nevertheless was still moderate, while growth in the more broadly defined money stock (M_2)[2] remained at about the moderate rate of October. The bank credit proxy[3] grew at a relatively fast pace, reflecting the substantial increase in Treasury deposits and a rise in the outstanding volume of large-denomination CD's. In early December expansion in M_1 quickened, and it now appeared that the average rates of growth in the monetary aggregates over the second half of the year would be relatively rapid.

System open market operations since the November meeting had been guided by the Committee's decision at that meeting to continue to seek bank reserve and money market conditions that would support more moderate monetary growth than the annual rates of about 8.5 per cent for M_1 and 9.5 per cent for M_2 recorded over the third quarter.[4] Accordingly, operations had been directed toward fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in a range of 6 to 10 per cent in the November–December period, while avoiding marked changes in money market conditions and taking account of the continuing effects of the bank regulatory changes implemented in early November.

Through much of the intermeeting period the rate of growth in RPD's had appeared to be substantially above the specified range, and the System had acted to restrain expansion in nonborrowed reserves. As a result, money market conditions had firmed. The Federal funds rate had risen to about 5½ per cent in the days before this meeting from about 5 per cent at the time of the preceding meeting. Member bank borrowings had increased to an average of about $655 million in the 3 weeks ending December 13 from about $640 million in the preceding 5 weeks, and in the last few days before this meeting borrowings had risen substantially.

At the time of this meeting it still appeared that RPD's would grow over the November–December period at a rate somewhat

---

[2] M_1 plus commercial bank time and savings deposits other than large-denomination CD's.

[3] Daily-average member bank deposits, adjusted to include funds from nondeposit sources.

[4] Growth rates cited are 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.

above the specified range. However, the excess was not large, and in part it was attributable to a shift in the multiplier relationship between reserves and deposits that reflected greater-than-anticipated expansion in deposits at large member banks—which are subject to higher marginal reserve requirements—and lower-than-anticipated expansion at smaller banks.

The Committee agreed that the economic situation called for growth in the monetary aggregates at slower rates than those that appeared likely to be recorded for the second half of 1972. At the same time, the members noted that financial markets were still adjusting to the firming in money market conditions that had occurred in recent weeks. They took account of a staff analysis of prospective reserve-deposit relationships which suggested that the Committee's objectives for the aggregates might be served by fostering growth in RPD's during the December–January period at an annual rate within a range of 7 to 11 per cent. However, in view of the rapid expansion in monetary aggregates since the preceding meeting, the members concluded that reserve-supplying operations that would result in an easing of money market conditions should be avoided unless the annual rate of RPD growth appeared to be dropping below 4 per cent. Accordingly, they decided that open market operations should be directed at fostering RPD growth during the 2-month period within a range of 4 to 11 per cent, while continuing to avoid marked changes in money market conditions. They also agreed that in the conduct of operations account should be taken of the forthcoming Treasury financings and possible credit market developments, and that allowance should be made in operations if growth in the monetary aggregates appeared to be deviating from an acceptable range. It was understood that the Chairman might consider calling upon the Committee to appraise the need for supplementary instructions before the next scheduled meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

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

> The information reviewed at this meeting, including strong recent gains in industrial production, employment, and retail sales, suggests that real output of goods and services is growing more rapidly

in the current quarter than in the third quarter. The unemployment rate has declined. Wage rates increased little in November, following 2 months of large increases. Consumer prices rose considerably again in October, and wholesale prices rose sharply in November. The over-all deficit in the U.S. balance of payments has remained substantial in recent months, but there has been a moderate reduction in the excess of U.S. merchandise imports over exports since last spring and summer.

In November rates of growth in the monetary aggregates generally remained moderate, but expansion in the narrowly defined money stock quickened in early December. In recent weeks most market interest rates have tended upward.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to sustainable real economic growth and increased employment, abatement of inflationary pressures, and attainment of reasonable equilibrium in the country's balance of payments.

To implement this policy, while taking account of Treasury financing operations and possible credit market developments, the Committee seeks to achieve bank reserve and money market conditions that will support slower growth in monetary aggregates over the months ahead than appears indicated for the second half of this year.

> Votes for this action: Messrs. Burns, Hayes, Brimmer, Bucher, Coldwell, Daane, Eastburn, MacLaury, Mitchell, Robertson, Sheehan, and Winn. Votes against this action: None.

Federal Reserve Operations in Foreign Currencies

During 1972 the System reduced its outstanding commitments to foreign central banks under the reciprocal swap network by $1,230 million equivalent (at pre-August 15, 1971 exchange rates). The foreign currencies required to effect these repayments were obtained through a combination of market purchases, purchases directly from the foreign central banks, and a U.S. Treasury drawing on the International Monetary Fund of $217 million equivalent in sterling. At the year end outstanding drawings, which had totaled $3,045 million at the time of suspension of use of the network on August 15, 1971, stood at $1,585 million equivalent in Swiss and Belgian francs. Losses realized on repayments during 1972 totaled $55 million.

The suspension of the use of the swap network was lifted by the President in July in conjunction with his decision that the System should intervene in the exchange markets to help end speculation against the dollar, which followed the floating of the British pound. To this end the System sold $21 million equivalent of German marks and $10 million equivalent of Belgian francs in late July and early August. The marks were sold from System and Treasury balances, while the Belgian francs were obtained through a swap drawing on the National Bank of Belgium. This drawing was repaid within a few days, as the Belgian franc moved below its ceiling and the System was able to purchase the requisite amount of francs in the market.

Other market operations involved the purchase of marks and guilders for possible future market sale and the purchase of sterling, Swiss francs, and Belgian francs for the purpose of effecting swap repayments.

Voluntary Foreign Credit Restraint Program

The Voluntary Foreign Credit Restraint (VFCR) program continued without major change during 1972, on the basis of the guidelines as revised in November 1971. Most of the amendments adopted by the Board during 1972 were designed to clarify existing provisions or to simplify reporting procedures. However, one amendment extended to one class of bank affiliates the same limited foreign-borrowing-offset provision that had already been made available to other bank affiliates, and another exempted foreign assets acquired in connection with acts taken by the Overseas Private Investment Corporation to settle claims. As intended, the impact of the 1972 amendments on the general level of restraint was negligible.

Since November 1971, banks previously without VFCR ceilings could adopt a ceiling for nonexport foreign lending and investing equal to 2 per cent of their total assets as of December 31, 1970. During 1972, 87 commercial banks adopted such ceilings, amounting in the aggregate to $406 million. However, some of these "newcomer" banks either did not engage in foreign lending during the

FOREIGN ASSETS OF U.S. BANKS

Item	1971, Dec. 31	1972			
		Mar. 31	June 30	Sept. 30	Dec. 31
Number of reporting banks	194	200	205	203	219
	Millions of dollars				
Aggregate ceiling	**10,032**	**10,069**	**10,103**	**10,121**	**10,252**
Assets held for own account subject to restraint	8,955	8,835	8,684	8,807	9,109
Aggregate net leeway	1,078	1,254	1,419	1,314	1,143
Assets exempted from VFCR	**3,347**	**4,516**	**4,571**	**4,765**	**5,348**
Canadian assets	536	799	830	876	927
Export credit other than to residents of Canada	3,299	3,586	3,546	3,690	4,222
Other	112	131	195	199	199
TOTAL assets held for own account	**12,302**	**13,351**	**13,255**	**13,572**	**14,457**

FOREIGN ASSETS OF U.S. AGENCIES AND BRANCHES OF FOREIGN BANKS

Item	1971, Dec. 31	1972			
		Mar. 31	June 30	Sept. 30	Dec. 31
Number of reporting institutions	51	53	53	57	60
	Millions of dollars				
Assets of the types subject to restraint	**1,943**	**2,183**	**2,110**	**2,277**	**2,878**
Assets of the types not subject to restraint	**1,066**	**1,213**	**1,290**	**1,458**	**1,799**
Canadian assets	273	335	315	335	389
Export credits	793	878	975	1,123	1,410
TOTAL assets held for own account	**3,009**	**3,396**	**3,400**	**3,735**	**4,676**

year or did not acquire enough foreign assets to report them. The total number of banks actively participating in the VFCR program increased in 1972 by 25—to a total of 219—and the aggregate ceilings by $220 million, to $10,252 million.

The volume of foreign lending and investment by U.S. banks that was subject to VFCR ceilings remained little changed during 1972. At the end of 1972 banks' foreign assets held for their own account and subject to restraint were $154 million more than the $8,955 million held at the end of 1971; however, because of the entry of additional banks into the program, the aggregate net leeway at the end of 1972 was $65 million above the end-of-1971 level of $1,078 million.

Of the foreign assets not subject to restraint, banks' holdings of Canadian claims rose by $391 million. Following the removal of all export credits from restraint in November 1971, banks substantially expanded their lending activity in that field. At the end of 1972, export credits outstanding (other than to residents of Canada) were $923 million, or 28 per cent, above the December 1971 level. While banks' own foreign assets (including those exempt from the VFCR) rose by $2,155 million from the end of 1971 to December 31, 1972, their foreign assets subject to restraint rose by $154 million, as mentioned earlier.

U.S. agencies and branches of foreign banks were requested to continue to act in accordance with the spirit of the VFCR guidelines throughout 1972. In addition, they were asked for the first time to submit monthly reports on their foreign asset positions. Because these institutions rely on foreign sources of funds to a much higher degree than do U.S. commercial banks and because they operate differently from U.S. banks in other respects, they have been treated

FOREIGN ASSETS OF U.S. NONBANK FINANCIAL INSTITUTIONS AND NONPROFIT ORGANIZATIONS REPORTING UNDER VFCR GUIDELINES

Amounts shown in millions of dollars

Item	Amount Dec. 31, 1972	Changes from Dec. 31, 1971	
		Amount	Per cent
ASSETS SUBJECT TO CEILING			
Deposits and money market instruments, foreign countries except Canada	69	+48	+228.6
Short- and intermediate-term credits, foreign countries except Canada [1]	140	−10	−6.7
Long-term investments, developed countries except Canada:			
Net investment in subsidiaries, affiliates, and branches [2]	189	+21	+12.5
Long-term bonds and credits	445	−83	−15.7
Stocks [3]	224	−208	−48.1
TOTAL holdings of assets subject to ceiling	**1,067**	**−232**	**−17.9**
Foreign-borrowing offset	156	+79	+102.6
TOTAL holdings less offset	**911**	**−311**	**−25.5**
Ceiling	1,556	−226	−12.7
Net leeway	645	+85	+15.2
ASSETS NOT SUBJECT TO CEILING			
Export credits	96	+16	+20.0
Investments in Canada:			
Deposits and money market instruments	325	−20	−5.8
Short- and intermediate-term credits [1]	185	−8	−4.1
Net investment in subsidiaries, affiliates, and branches [2]	952	+80	+9.2
Long-term bonds and credits	9,121	+582	+6.8
Stocks	982	−305	−23.7
Direct obligations of international institutions of which U.S. is a member	1,199	+159	+15.3
Long-term investments in developing countries:			
Net investment in subsidiaries, affiliates, and branches [2]	59	+19	+47.5
Long-term bonds and credits	1,118	+222	+24.8
Stocks	109	−23	−17.4
Otherwise "covered" stocks acquired after Sept. 30, 1965, in U.S. markets from U.S. investors	904	+20	+2.3
Otherwise "covered" assets acquired after Dec. 31, 1967, as "free delivery" items	34	−3	−8.1
TOTAL holdings of assets not subject to ceiling	**15,083**	**+737**	**+5.1**
MEMO: Total holdings of foreign assets	16,149	+503	+3.2

[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. investors.

in a special category under the program. During 1972 the number of these institutions reporting increased by 9 to a total of 60, as shown in the table on page 192. The agencies and branches that reported at the end of 1972 showed holdings of foreign assets of the types subject to restraint of $2,878 million; this was $935 million above their holdings at the end of 1971, an increase of more than 48 per cent. As was true of U.S. commercial banks, export credits granted by agencies and branches of foreign banks increased rapidly; on December 31, 1972, these credits were $617 million above the 1971 level—an increase of 80 per cent.

By the end of 1972, holdings by nonbank financial institutions of assets subject to ceilings had declined by nearly $250 million—or 18 per cent—from the level of $1,300 million at the end of 1971. This development left the VFCR reporting institutions with a net leeway of about $650 million after adjustment for the foreign borrowing offset. On the other hand, holdings of assets not subject to restraint increased by about $750 million. About $200 million of this increase resulted from new investment in developing countries, about $160 million represented increased investment in direct obligations of international institutions of which the United States is a member, and the $360 million remaining reflected increased investments in Canada.

Legislative Recommendations

Reserve requirements. The Board recommends that reserve requirements set by and held with the Federal Reserve be made applicable to all financial institutions that offer money-transfer services in essentially the same manner as do member banks. This would provide the most rational and equitable system of reserve requirements, particularly in view of the evolution toward the use of check-type transfers by thrift institutions.

The present limited application of Federal Reserve reserve requirements—to member banks alone—is an anachronism. Formerly, member banks held a much larger proportion of the deposits of all commercial banks, so inequities were considerably less significant. In 1945, for instance, member banks held approximately 86 per cent of total commercial bank deposits. This figure had eroded over the years, however, reaching 80 per cent in 1970 and approximately 78 per cent by the end of 1972.

The principal reason for this erosion unquestionably is the variance that exists between reserve requirements imposed on member banks compared with those set for nonmember banks. Banks that are not members of the Federal Reserve System have a competitive advantage. Although in most States the nominal reserve percentage for banks is comparable with that imposed on member banks, the reserves required by the States may be carried in the form of what are effectively earning assets: Government obligations and correspondent balances. Reserves maintained with the Federal Reserve, on the other hand, are nonearning assets, even though they are used to some extent for clearing purposes. Therefore, as banks strive for greater earnings, there is an ever-present incentive for member banks to withdraw from the System or for newly chartered State banks to elect not to join the System.

During 1972 five banks with deposits of $100 million or more withdrew from Federal Reserve membership. One of these banks had deposits of nearly $500 million. Of the 265 newly formed commercial banks in 1972, 199 elected nonmember status as State banks while only 13 State banks elected to become members upon organization. An additional 53 newly chartered national banks became members of the Federal Reserve System, pursuant to Federal statutory requirements.

Since 1960, 701 banks have left the System through withdrawals (including conversions from national to State charters) and mergers. During the same period 67 newly chartered State banks elected to join the System, but 1,483 newly chartered State banks declined to do so. Member banks in 1960 totaled 6,174 out of a total commercial bank population of 13,472. At the end of 1972 there were 5,705 member banks out of a total of 13,928 banks.

Part of the Federal Reserve's concern that reserve requirements apply to all depositary institutions has arisen because of the growing volume of financial transactions that are taking place outside member banking institutions. With respect to commercial banks, for instance, fully one-quarter of the increase in demand deposits over the past decade has been at nonmember institutions. Yet all demand deposits—whether they be in member banks, nonmember banks, or mutual savings banks—are equally a part of the Nation's money stock. In order to facilitate the implementation of monetary policy, the same reserve requirements should apply to these increasing deposits.

The proposal to extend reserve requirements to institutions other than commercial banks has become increasingly relevant as savings banks and other financial institutions have begun to seek, and in some cases obtain, power to offer third-party transfer services. In the State of Massachusetts, for example, savings banks have instituted a form of interest-bearing account subject to a "negotiable order of withdrawal" (NOW)—an instrument similar to a check. The NOW accounts add somewhat to the effective money stock outside the direct control of the monetary authority. In California, savings and loan associations are seeking entry into an electronic money transfer system operated by California banks. Direct entry would enable them to charge and credit the savings accounts of their customers as if those accounts were checking accounts. (The Board has submitted comprehensive legislative suggestions dealing with a number of the problems created by these developments.)

The Board by regulation in 1972 restructured its reserve requirements for member banks so that required reserves now are a function simply of bank size. (See page 78.) The regulatory modifications have produced a smoother progression of reserve requirements against increasing deposit-size categories. If the Board's proposal regarding the extension of reserve requirements is enacted, the Board intends to make additional changes in the structure of its requirements to provide greater equity and flexibility among all institutions covered by the requirements and to facilitate the transition for those newly covered.

Accordingly, the Board recommends that:

(1) Federal Reserve reserve requirements be applied to the demand deposits of all depositary institutions that accept deposits subject to withdrawal by check. The Reserve Banks would be authorized to extend credit to such institutions on the same basis as they now extend it to member banks.

(2) All institutions offering to individuals and families savings accounts that are subject to withdrawal by check or similar means ("family accounts") should be required to maintain identical reserves against these accounts with the Federal Reserve System, in accordance with regulations to be established by the Board. Limited access to the Federal Reserve's discount window might be provided to institutions maintaining such reserves.

Lending authority of Federal Reserve Banks. As a complement to the Board's recommendation regarding the extension of reserve requirements to financial institutions offering checking-account-type services and the extension of Federal Reserve Bank borrowing privileges to these same institutions, the Board again urges enactment of legislation that would permit member banks to borrow from their Reserve Banks on the security of any sound assets without paying a "penalty" rate of interest whenever technically ineligible paper is presented as collateral. Under Section 13 of the Federal Reserve Act, Federal Reserve Banks may extend short-term credit to member banks on their promissory notes secured by obligations eligible either for purchase or for discount by the Reserve Banks.

Obligations eligible for purchase include those issued or fully guaranteed as to principal and interest by the United States or any agency thereof, cable transfers, bank acceptances, bills of exchange, and certain municipal warrants. Obligations eligible for discounting are limited to notes that are issued or drawn for agricultural, industrial, or commercial purposes and that have a maturity at the time of discount of not more than 90 days (or 9 months in the case of agricultural paper).

Under Section 10(b) Reserve Banks are authorized to extend credit to member banks secured simply by collateral viewed as satisfactory by the Reserve Banks. However, Section 10(b) also provides that such credit extensions "shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect" at the Reserve Bank making the loan. The result of this provision is that many perfectly sound member bank loans cannot qualify as security for Federal Reserve advances except at the penalty rate of interest prescribed in Section 10(b). This is true even though the quality of the "ineligible" collateral may be equal to that of presently "eligible" paper.

Examples of currently "ineligible" paper include home mortgages and municipal obligations. Presumably, all FHA-insured and VA-guaranteed loans would become eligible as collateral for advances under the Board's proposal; such a development would tend to encourage member banks to increase their portfolios of such obligations. Moreover, the Board could, by regulation, prescribe limitations on the extensions of such credit to prevent abuses.

Federal Reserve Bank branch buildings. Under Section 10 of the Federal Reserve Act the aggregate costs of branch bank buildings constructed by the Federal Reserve System after July 30, 1947, may not exceed $60 million. This amount has been almost fully utilized or earmarked for construction projects, thus making it necessary for the Board to seek additional legislative authority. Branches of Federal Reserve Banks perform important public services, including especially the handling of currency and coin and the processing of checks. As the economy grows, the workload of the Banks and branches also expands. The Board, in its legislative recommendations in 1971 and 1972, said it believed the present dollar limitation on costs of branch bank buildings to be unnecessary and recommended that the limitation be repealed. The Board reiterates this recommendation. The Board estimates that $71 million will be needed over the next 5 years to cover costs of buildings proper for branch bank building programs. Analysis of the System's building needs is continuing, to ensure the maximum public benefits for each dollar spent.

Proposals relating to the regulation of holding companies.

a. Cease-and-desist orders. Under present law, there is no Federal administrative remedy for violations of law by a bank holding company or any of its nonbanking subsidiaries (that are not also subsidiaries of banks). The Board may either refer the violation to the Department of Justice as a criminal violation or work the matter out with the holding company, or it may take no action. The Board recommends that the Financial Institutions Supervisory Act of 1966 be expanded to authorize the Board to initiate cease-and-desist proceedings to prevent an unsafe or unsound practice in conducting the business of the holding company or to prevent violations by the holding company of a law, rule, or regulation, or any condition imposed by the Board in connection with the granting of any application or other request by the holding company; and to issue appropriate cease-and-desist orders against any bank holding company or subsidiary thereof under the Act, including, and notwithstanding any other provision of law, authority to require prompt divestiture of a nonbanking subsidiary by a bank holding company where the continuation of ownership or control of such nonbanking subsidiary by a bank holding company would be inconsistent with the public interest.

b. Acquisition by holding company of a "failing bank." The Board recommends that Section 11(b) of the Bank Holding Company Act be amended to include provisions, similar to those in the Bank Merger Act, under which (1) comments by a bank supervisor on a proposed take-over of a "failing" bank may be required to be submitted within 10 days (rather than the usual 30 days); (2) the Board may inform the Attorney General of an emergency requiring expeditious action and thereby shorten from 30 to 5 the number of days between approval of the transaction by the Board and the day consummation becomes permissible; and (3) the Board may dispense with comments from the bank supervisors and the Attorney General where immediate action has been found to be necessary to prevent a probable bank failure and the transaction may be consummated immediately upon approval by the Board.

c. Retention by holding company of bank stock acquired as a result of a debt previously contracted. Section 4 of the Bank Holding Company Act authorizes the Board to extend from 2 to 5 years the time within which to dispose of stock in nonbanking organizations acquired by a holding company pursuant to a debt previously contracted. The reasons underlying that authorization seem equally applicable in the case of bank stock. Accordingly, the Board recommends that Section 3 be amended to parallel the provisions of Section 4 in this respect.

d. Limitations on reducing, lending on, or paying out a bank holding company's capital. Member banks are required to comply with several limitations on reducing, lending on, or paying out capital. (See Federal Reserve Act, Section 9, paragraphs 6 and 11, and Revised Statutes, Sections 5199, 5201, 5204, and 5205.) The Board believes there is a need for some similar limitations on bank holding companies and their nonbank subsidiaries, so as to prevent the undermining of the capital position of the entire bank holding company system.

e. Intercorporate dealings. Federal Reserve Act Section 23A (12 U.S.C. 371c) limits extension of credit between banks and their affiliates, including bank holding company parents and collateral affiliates. The Board favors legislation to extend this provision to cover some purchases of assets by banks from affiliates, sales by banks to affiliates, or fees or other charges paid to affiliates. In the Board's judgment such legislation may be necessary in some instances to prevent misuse of bank resources.

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 now believes that a bank examiner may experience difficulties in being prevented from obtaining other forms of bank credit, such as loans to finance the education of his children, automobile loans, home improvement loans, credit-card loans, and other types of consumer credit. For that reason, the Board favors legislation to permit loans to a bank examiner to be made in accordance with regulations prescribed by the agency employing the examiner.

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 depositary 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."

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—Antitrust actions. During 1972 the Federal courts announced actions in three cases brought by the U.S. Department of Justice to prevent the consummation of bank acquisitions by registered bank holding companies. Two other such cases filed by the Department of Justice are pending in the Federal courts. In each case the complaint alleged that the effect of the proposed acquisition would 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). The caption of each case and a brief description of its status are as follows:

United States v. *First National Bancorporation, Inc., et al.,* filed July 1970, U.S.D.C., District of Colorado. This case was dismissed by the District Court on the grounds that the Government failed to prove that the acquisition would substantially lessen competition or tend to create a monopoly in commercial banking in the Greeley, Colorado, market or substantially lessen competition in the correspondent banking field (329 F. Supp. 1003 (1971)). In November 1971 the Department of Justice filed an appeal, which the U.S. Supreme Court accepted for review. The case was argued before that Court during October 1972 and is awaiting decision.

United States v. *First National Bancorporation, Inc., et al.,* filed December 1970, U.S.D.C., District of Colorado. The proceedings in this case (relating to Security State Bank of Sterling, Colorado) have been suspended pending the outcome of the Greeley case referred to in the preceding paragraph.

United States v. *United Virginia Bankshares Incorporated, et al.,* filed February 1970, U.S.D.C., Eastern District of Virginia. A stay against consummation of the acquisition was lifted by the District Court in February 1971. The case was then tried and dismissed by the District Court on the grounds that the Government failed to prove that the acquisition would substantially lessen competition or tend to create a monopoly in commercial banking in the Prince William County market (Memorandum Order September 1972). The time to file an appeal has not yet expired.

United States v. *Trans Texas Bancorporation, Inc., et al.* This case was filed March 1972, U.S.D.C., Western District of Texas, to prevent formation of a proposed bank holding company to consist of four banks in the El Paso market. The case was then tried and dismissed by the District Court on the grounds that the Government failed to prove that the proposal would substantially lessen competition or tend to create a monopoly in commercial banking in the El Paso market (Memorandum Order November 1972). Consummation of the proposal has been stayed. The time to file an appeal has not yet expired.

United States v. *County National Bancorporation.* This case was filed April 1972, U.S.D.C., Eastern District of Missouri, to prevent consummation by the County National Bancorporation, Clayton, Missouri, of the acquisition of Big Bend Bank, located in Webster Groves, Missouri. The case was then tried and dismissed by the District Court on the grounds that the Government had failed to prove that the acquisition would substantially lessen competition or tend to create a monopoly in commercial banking in the St. Louis market (Memorandum Order December 1972). The time to file an appeal has not yet expired.

Bank holding companies—Review of Board actions. Eight civil actions raising questions under the Bank Holding Company Act were filed during 1972; one of the cases filed during 1971 remains pending.

In *National Association of Insurance Agents, Inc.* v. *Board of Governors,* filed September 1971, U.S.C.A. for the District of Columbia Circuit, petitioner asked the Court to review and set aside a regulatory action by the Board to simplify certain procedures in connection with applications under Sections 3(a)(1) and 4(c)(8) of the Bank Holding Company Act. In December 1971 the Board suspended the operation of that regulatory action as it relates to Section 4(c)(8) and published proposed regulatory amendments that include modifications of the suspended procedures. The Court proceedings have been suspended pending final outcome of the Board's proposed amendments. (For the action establishing the procedures, see the Federal Reserve *Bulletin* for September 1971, page 723; for the proposed amendments, see the *Federal Register* for December 28, 1971, page 25048.)

In *National Association of Insurance Agents, Inc., et al.* v. *Board of Governors,* filed October 1972, U.S.C.A. for the District of Columbia Circuit, petitioners asked the Court to review and set aside an interpretation issued by the Board relating to the types of insurance agency activities that are considered by the Board to be closely related to banking and in which bank holding companies or their subsidiaries may engage. (The Board's interpretation was published in the *Federal Register* for September 13, 1972, pages 18520 and 18521, and it appears in the Federal Reserve *Bulletin* for September 1972, pages 800 and 801.)

In *Western Bancshares, Inc.* v. *Board of Governors,* filed September 1972, U.S.C.A. for the Tenth Circuit, petitioner has requested the Court to review and set aside an Order of the Board denying applications for retention of a bank and continuation of the activities of a general insurance agency. (For the Board's Order, see the Federal Reserve *Bulletin* for September 1972, page 843.)

In *Gravois Bank, et al.* v. *Federal Reserve Bank of St. Louis, et al.,* filed July 1972, U.S.C.A. for the Eighth Circuit, petitioners have urged the Court to review and set aside an Order of June 12, 1972, of the Federal Reserve Bank of St. Louis, acting under delegated authority, approving the application of Manchester Financial Corporation, St. Louis, Missouri, to acquire The National Bank of Affton, Affton, Missouri, a proposed new bank.

In *Lewis & Clark State Bank* v. *William B. Camp, et al.,* filed July 1972, U.S.D.C., Eastern District of Missouri, an action challenging an application by Boatmen's Bancshares, Inc., St. Louis, Missouri, to acquire Boatmen's National Bank of North St. Louis County, a proposed new bank, was dismissed by the District Court for lack of subject-matter jurisdiction.

In *Lewis & Clark State Bank* v. *Board of Governors, et al.,* filed October 1972, U.S.C.A. for the District of Columbia Circuit, petitioner has requested judicial review of a Board Order approving the application of Boatmen's Bancshares, Inc., St. Louis, Missouri, to acquire Boatmen's National Bank of North St. Louis County, a proposed new bank. A motion by petitioner for a stay of the Board's Order pending judicial review was granted during December 1972. (For the Board's Order, see the Federal Reserve *Bulletin* for October 1972, page 923.)

In *Missouri State Bank & Trust Company* v. *William B. Camp, et al.,* filed July 1972, U.S.D.C., Eastern District of Missouri, an action challenging an application by Commerce Bankshares, Inc., Kansas City, Missouri, to acquire Commerce Bank of St. Louis, National Association, a proposed new bank, was dismissed by the District Court for lack of subject-matter jurisdiction.

In *Bankamerica Corporation* v. *Board of Governors,* filed July 1972, U.S.C.A. for the Ninth Circuit, petitioner asks the Court to review and set aside an Order of the Board denying an application of Bankamerica Corporation, San Francisco, California, to engage in certain personal property leasing activities under Section 4(c)(8) of the Bank Holding Company Act.

In *American Fletcher Corporation* v. *Board of Governors,* filed October 1972, U.S.C.A. for the District of Columbia Circuit, petitioner asked the Court to review and set aside a regulatory action by the Board declining to include at the present time operation of savings and loan associations on its list of activities in which bank holding companies may engage. (For the Board's statement, see the Federal Reserve *Bulletin* for August 1972, page 717.) The petition for judicial review on agreement of the parties was dismissed by the Court during January 1973.

Regulation J—Collection of Checks and Other Items by Federal Reserve Banks. In *Independent Bankers Association of America, et al.* v. *Board of Governors,* filed September 1972, U.S.D.C. for the District of Columbia, and in *Community Bank, et al.* v. *Federal Reserve Bank of San Francisco, et al.,* filed September 1972, U.S.D.C. for the Central District of California, actions were brought challenging certain amendments to the Board's Regulation J that require payment of cash items on the day of presentment. In each case the Board's motion for summary judgment was granted during early 1973.

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 27 of the 1,092 State member banks were examined during 1972.

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 public disclosure requirements of the Securities Exchange Act of 1934, as amended, with respect to equity securities of State member banks within its jurisdiction under the 1934 Act, and the provisions of the Act giving responsibility to the Board for regulating security credit transactions; prescribes regulations pursuant to the Truth in Lending Act for financial institutions and other firms engaged in extending consumer credit and administers these regulations in their application to State member banks; administers the provisions of the Fair Credit Reporting Act, the Currency Transaction Reporting Act, and the Civil Rights Act of 1968 in their application to State member banks; 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 1972, 32 such changes in ownership of the outstanding voting stock of State member banks were reported to the Reserve Banks as changes in control of these member banks. 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 Re-

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. 29, 1971—Dec. 31, 1971	7,483	21,655,792	1–18
Jan. 1, 1972—Apr. 20, 1972	8,833	24,959,692	1–18
Apr. 21, 1972—June 30, 1972	7,485	22,257,060	1–18
July 1, 1972—Sept. 30, 1972	8,085	25,118,261	1–18
Oct. 1, 1972—Dec. 31, 1972	[1]	[1]	[1]

[1] Compilation of data for condition report of Dec. 31, 1972, has not been completed.

serve 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 1971 ANNUAL REPORT was released, member banks have submitted, as required by law, the data that appear in the table above.

Federal Reserve membership. As of December 31, 1972, member banks accounted for 41 per cent of the number of all commercial banks in the United States and for 61 per cent of all commercial banking offices, and they held approximately 78 per cent of the total deposits in such banks; these figures compare with 42 per cent, 62 per cent, and 79 per cent, respectively, at the end of 1971. State member banks accounted for 12 per cent of the number of all State commercial banks and 25 per cent of the banking offices, and they held 50 per cent of total deposits in State commercial banks.

Of the 5,705 banks that were members of the Federal Reserve System at the end of 1972, there were 4,613 national banks and 1,092

State banks. During the year there were net increases of 13 national and net declines of 36 State member banks. The decline in State member banks was offset in part by the organization of 53 new national banks and by the conversion of 12 nonmember banks to national banks. The decrease in State member banks reflected mainly 36 withdrawals from membership and 12 conversions to branches incident to mergers and absorptions.

At the end of 1972 member banks were operating 17,954 branches, facilities, and additional offices, 869 more than at the close of 1971; this included 946 *de novo* branches and 3 established facilities.

Detailed figures on changes in the banking structure during 1972 are shown in Table 18, pages 254 and 255.

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 1972 the Board disapproved one and approved 19 of these applications, and it submitted 145 reports on competitive factors to the Comptroller of the Currency and 95 to the Federal Deposit Insurance Corporation. In addition, the Federal Reserve Banks approved three merger applications on behalf of the Board of Governors pursuant to delegated authority. As required by Section 18(c) of the Federal Deposit Insurance Act, a description of each of the 22 applications approved by the Board or the Reserve Banks, together with other pertinent information, is shown in Table 21, pages 258–79.

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. 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 1972, pursuant to the provisions of the Bank Holding Company Act of 1956, as amended, the numbers of proposals acted on by the Board, and by the Federal Reserve Banks under delegated authority, were as follows:

Section	Board		Reserve Banks	
	Approved	Denied	Approved	Permitted
Section 3(a)(1)	68	11	44	....
3(a)(3)	248	18	30	....
3(a)(5)	2	....	....	....
4(c)(8)	59	15	....	251
4(c)(12)	....	....	....	68
4(d)	4	2	....	....

In addition to the above, 36 determinations were made by the Board pursuant to Section 4(a)(2) of the Act.

Board statements and/or orders with respect to applications, whether approved or denied, are released immediately to the press

[Tabulation referred to on facing page.]

Abu Dhabi	1	Liberia	2
Argentina	38	Luxembourg	1
Austria	1	Malaysia	5
Bahamas	94	Mariana Islands	1
Bahrain	2	Marshall Islands	1
Barbados	4	Mexico	5
Brunei	2	Monaco	1
Belgium	7	Netherlands	6
Bolivia	3	Netherlands Antilles	3
Brazil	21	Nicaragua	3
Canal Zone	2	Pakistan	4
Colombia	28	Panama	32
Dominican Republic	15	Paraguay	6
Dubai	3	Peru	8
Ecuador	15	Philippines	4
El Salvador	1	Puerto Rico	19
Fiji Islands	3	Qatar	1
France	17	Saudi Arabia	2
Germany	27	Singapore	11
Greece	14	Switzerland	8
Guam	6	Taiwan	3
Guatemala	3	Thailand	2
Guyana	1	Trinidad and Tobago	6
Haiti	1	Trucial State of Sharjah	1
Honduras	3	Truk Islands	1
Hong Kong	19	United Kingdom	49
India	11	Uruguay	4
Indonesia	6	Venezuela	4
Ireland	4	Vietnam	3
Israel	2	Virgin Islands (U.S.)	20
Italy	7	Virgin Islands (British)	3
Jamaica	7		
Japan	21	Other (West Indies)	13
Korea	3		
Lebanon	3	**Total**	**627**

and the public, and orders accompanied by statements are published in the Federal Reserve *Bulletin*. The material sets forth the factors considered, the conclusions reached, and the vote of each Board member present. Actions by the Federal Reserve Banks are reported to the press and the public in the Board's weekly H.2 release. Board actions on applications under Sections 4(c)(9) and 4(c)(13) are not published, but reports of such actions are available for inspection upon request.

Annual reports for 1971 were obtained from all registered bank holding companies pursuant to the provisions of Section 5(c) of the Act. At the end of 1972, there were 1,567 bank holding companies in operation.

Foreign branches of member banks. At the end of 1972, 107 member banks had in active operation a total of 627 branches in 73 foreign countries and overseas areas of the United States; 79 national banks were operating 565 of these branches, and 28 State member banks were operating 62 such branches. The number and location of these foreign branches were as shown in the tabulation on page 212.

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 1972 approved 80 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 67 branches overseas and closed 17.

Foreign banking and financing corporations. At the end of 1972 there were six 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. Four of these "agreement" corporations were examined during the year by examiners for the Board of Governors. Another one did not sign an agreement with the Board until the second half of the year. The remaining agreement corporation is a national bank in the Virgin Islands and is owned by a State member bank in Philadelphia.

During 1972, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued final permits to 10 corporations to engage in international or foreign banking or other international or foreign financial operations, and 10 corporations commenced operations, while three were merged into other corporations and ceased to exist. At the end of the year there were 87 corporations in active operation under Section 25(a). Nine of these corporations operate a total of 14 overseas branches. Examiners for the Board of Governors examined 80 of these corporations during 1972.

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 authorities. Under authority granted in (1) above, the Reserve Banks approved 257 branch applications, 61 investments in bank premises, 10 applications of State member banks to declare certain dividends, and 39 waivers of notice of intention to withdraw from membership in the Federal Reserve System. Under authority granted in (2) above, the Reserve Banks approved 1,071 applications.

The Board has delegated certain authorities to the Director or Acting Director of the Division of Supervision and Regulation. Under this authority 255 actions were taken. 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 are 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 210 competitive factor reports were approved.

Bank Examination Schools. In 1972 the Board's Bank Examination School conducted two sessions of the School for Examiners, three 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 from 1962 through 1970 was conducted jointly by the Federal Reserve System and Federal Deposit Insurance Corporation.

Since the establishment of this program, 4,796 persons have attended the various sessions. This number includes representatives of the Federal bank supervisory agencies; the State Banking Departments of Arizona, Arkansas, California, Connecticut, Florida, Georgia, 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 20 foreign countries.

Truth in Lending. A report entitled *Annual Report to Congress on Truth in Lending for the Year 1972* was submitted separately, pursuant to the Truth in Lending Act (Title I of the Consumer Credit Protection Act (Public Law 90–321)).

Federal Reserve Banks

Examination of Federal Reserve Banks. The Board's Division of Federal Reserve Bank Operations examined the 12 Federal Reserve Banks, 24 branches, and 2 facilities 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 the 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 1972 and 1971.

Current earnings of $3,792 million in 1972 were 2 per cent higher than in 1971. The principal changes in earnings were an increase of

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS, 1972 AND 1971

In thousands of dollars

Item	1972	1971
Current earnings	3,792,334	3,723,370
Current expenses	414,606	377,185
Current net earnings	3,377,728	3,346,185
Net addition to or deduction from (−) current net earnings	−49,616	94,266
Net earnings before payments to U.S. Treasury	3,328,112	3,440,451
Dividends paid	46,183	43,488
Payments to U.S. Treasury (interest on F.R. notes)	3,231,268	3,356,560
Transferred to surplus	50,661	40,403

$76 million on U.S. Government securities and a decrease of $6 million on loans.

Current expenses were $37 million, or 10 per cent, more than in 1971. Statutory dividends to member banks totaled $46 million, an increase of $3 million from 1971. 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 $3,231 million for the year, compared with $3,357 million in 1971. 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 $83.75 for one regional meeting incident to the Treasury Department savings bond program.

A detailed statement of earnings and expenses of each Federal Reserve Bank during 1972 is shown in Table 7 on pages 238 and 239 and a condensed historical statement in Table 8 on pages 240 and 241.

Holdings of loans and securities. The table on page 218 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 1972 amounted to $71,391 million—an increase of $5,571 million over 1971. Holdings of loans decreased $91 million, whereas there were increases of $5,654 million in U.S. Government securities and $8 million in acceptances.

The average rates of interest on holdings were down from 5.06 per cent to 4.47 per cent on loans, from 4.94 per cent to 4.61 per cent on acceptances, and from 5.66 per cent to 5.31 per cent on U.S. Government securities.

Volume of operations. Table 9 on page 242 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1969–72.

Loans decreased during the year as the number of borrowing banks fell to 810 from 901 in 1971.

The establishment of several new regional clearing centers and the expansion of immediate payment areas during the year, together

RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1970–72

Item and year	Total	Loans	Accept-ances	U.S. Govt. securities[1]
	In millions of dollars			
Average daily holdings:[2]				
1970	59,072	826	65	58,181
1971	65,820	413	81	65,326
1972	71,391	322	89	70,980
Earnings:				
1970	3,827.1	50.6	4.7	3,771.8
1971	3,719.6	20.9	4.0	3,694.7
1972	3,789.7	14.4	4.1	3,771.2
	In per cent			
Average rate of interest:				
1970	6.48	6.13	7.23	6.48
1971	5.65	5.06	4.94	5.66
1972	5.31	4.47	4.61	5.31

[1] Includes Federal agency obligations.
[2] Based on holdings at opening of business.

with continuing growth in the movement of funds, are reflected in a significant increase in the volume of checks handled. A further indication of growth in the movement of funds, through the use of the Federal Reserve communications network, is the 17 per cent increase in the volume of transfers of funds. The number of coins received and counted posted a sizable increase, responding to heavier demand.

Payments mechanism developments. During the year Federal Reserve Banks continued the expansion and development of improved check-processing arrangements, as they pursued the objectives established in a policy statement issued by the Board of Governors on June 17, 1971. This statement placed high priority on efforts to improve the Nation's payments mechanism. By the end of 1972, 24 regional clearing centers were in operation, with an additional 15 scheduled to become operational by mid-1973. Six of these centers are entirely new operations, begun in cities other than the previous 37 locations of Federal Reserve offices. In addition to providing faster clearing of checks, such centers will offer a new level of service to remotely located commercial banks.

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 1972 the guaranteeing agencies did not authorize the issuance of any new guarantee agreements. Loan authorizations outstanding on December 31, 1972, totaled $52 million, which was also the total of outstanding loans. Of total loans outstanding, 15 per cent on the average was guaranteed. During the year approximately $4 million was disbursed on guaranteed loans, all of which are revolving credits.

Authority for the V-loan program, unless extended, will terminate on June 30, 1974.

Table 15 on page 248 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 $8,758 million in 1972. At the end of the year they totaled $65,156 million: $11,450 million of earmarked gold, of which $905 million represented the increase resulting from the change in par value of the U.S. dollar in May 1972; $50,934 million of U.S. Government securities (including securities payable in foreign currencies); $325 million in dollar deposits; $179 million of bankers' acceptances purchased through Federal Reserve Banks; and $2,268 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 increased $1,377 million to $13,191 million; this amount includes an increase of $322 million in earmarked gold resulting from the change in par value of the U.S. dollar.

In 1972 new accounts were opened in the names of Bangladesh Bank, Narodowy Bank Polski, and the Central Bank of Yemen; the account in the name of the Yemen Currency Board was closed.

The Federal Reserve Banks did not make any loans on gold in 1972.

The Federal Reserve Bank of New York continued to act as depositary 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, the People's Republic of China (pertaining to assets blocked before May 7, 1971), and North Korea, and their nationals, and to transactions with those countries and their nationals.

Federal Reserve bank premises. During 1972 the Board authorized construction of new buildings for the Philadelphia and Boston Banks, a coin vault addition to the Pittsburgh Branch and a temporary coin facility addition to the present Boston Bank.

With the approval of the Board, the Dallas and Atlanta Banks and the Helena Branch acquired properties for future expansion. The Boston Bank acquired an existing underground facility in Amherst, Massachusetts, for use as a duplicate records storage center. An annex building for records storage was purchased by the Chicago Bank to replace rented facilities lost through termination of a lease agreement.

The Cincinnati and Memphis Branches occupied their new banking quarters, and the vacated Memphis Branch building property was sold.

Table 6 on page 237 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and of real estate acquired for banking-house purposes.

Board of Governors

Income and expenses. The accounts of the Board for the year 1972 were audited by the public accounting firm of Touche Ross & Co.

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, 1972, and the related statements of assessments and expenses, and changes in financial position 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. The financial statements for the preceding year were examined by other independent public accountants.

In our opinion, the aforementioned financial statements present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1972, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross & Co.
Certified Public Accountants

Washington, D.C.
January 29, 1973

Board of Governors of the Federal Reserve System

Balance Sheet

Assets	December 31, 1972	December 31, 1971
Operating Fund:		
Cash	$ 5,564,301	$ 5,500,211
Miscellaneous receivables and advances	92,076	58,222
Stockroom and cafeteria inventories—at cost (first-in, first-out method)	51,950	39,195
Total operating fund	5,708,327	5,597,628
Property Fund:		
Land and improvements	792,852	792,852
Building	4,298,315	4,284,181
Furniture and equipment	2,015,858	1,673,599
Construction-in-progress	22,031,509	9,771,715
Total property fund	29,138,534	16,522,347
	$34,846,861	$22,119,975

Liabilities and Fund Balances	1972	1971
Operating Fund:		
Accounts payable and accrued expenses	$ 2,827,929	$ 1,722,014
Income taxes withheld	187,054	157,997
Accrued payroll	368,533	327,602
Retention on construction-in-progress	1,662,319	....
	5,045,835	2,207,613
Fund balance:		
Balance, beginning of year	3,390,015	1,120,546
Assessments over (under) expenses	(2,727,523)	2,269,469
Balance, end of year	662,492	3,390,015
Total operating fund	5,708,327	5,597,628
Property Fund:		
Fund balance:		
Balance, beginning of year	16,522,347	8,868,106
Additions—at cost	12,699,379	7,720,419
Disposals—at cost	(83,192)	(66,178)
Net increase	12,616,187	7,654,241
Total property fund, end of year	29,138,534	16,522,347
	$34,846,861	$22,119,975

See notes to financial statements.

Board of Governors of the Federal Reserve System

Statement of Assessments and Expenses

	Year ended December 31	
	1972	1971
Assessments Levied on Federal Reserve Banks:		
For Board expenses and additions to property	$35,234,500	$32,634,000
For expenditures made on behalf of the Federal Reserve Banks	28,957,493	22,882,713
Total assessments	64,191,993	55,516,713
Expenses:		
For the Board:		
Salaries	17,167,836	15,101,752
Retirement and insurance contributions	1,605,754	2,005,986
Travel expenses	718,917	687,419
Legal, consultant and audit fees	535,104	431,034
Contractual services	400,714	346,746
Printing and binding—net	663,988	628,287
Equipment, office space and other rentals	2,658,376	2,189,655
Telephone and telegraph	304,183	271,489
Postage and expressage	298,855	227,229
Stationery, office and other supplies	217,391	194,298
Heat, light and power	103,566	93,778
Operation of cafeteria—net	134,438	121,319
Repairs, maintenance and alterations	222,274	131,639
Books and subscriptions	56,472	52,855
System membership, Center for Latin America Monetary Studies	27,645	28,338
Miscellaneous—net	168,796	138,041
	25,284,309	22,649,865
For additions to property—net of recovery on disposals of $21,665 in 1972 and $5,753 in 1971	12,677,714	7,714,666
	37,962,023	30,364,531
Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks	28,957,493	22,882,713
Total expenses	66,919,516	53,247,244
Assessments Over (Under) Expenses	$(2,727,523)	$ 2,269,469

See notes to financial statements.

Board of Governors of the Federal Reserve System

Statement of Changes in Financial Position

	Year ended December 31 1972	Year ended December 31 1971
Source of Funds:		
Assessments over (under) expenses	$(2,727,523)	$ 2,269,469
Net increase in property fund	12,616,187	7,654,241
Increase in retention on construction-in-progress	1,662,319	....
Increase in accounts payable and accrued expenses	1,105,915	669,830
Increase in accrued payroll	40,931	92,748
Increase in income taxes withheld	29,057	....
Decrease in miscellaneous receivables and advances	....	99,374
	12,726,886	10,785,662
Application of Funds:		
Additions to property—net:		
Construction-in-progress	12,259,794	7,332,893
Furniture and equipment	342,259	314,442
Building	14,134	6,906
	12,616,187	7,654,241
Increase in miscellaneous receivables and advances	33,854	....
Increase in stockroom and cafeteria inventories	12,755	7,930
Decrease in income taxes withheld	....	66,196
	12,662,796	7,728,367
Increase in Cash	$ 64,090	$ 3,057,295

Notes to Financial Statements

Significant Accounting Policies

Assessments made by the Board on the Federal Reserve Banks for Board expenses and additions to property are calculated based upon expected cash needs and are accrued when assessed. Board expenses and property additions are recorded on the accrual basis of accounting.

Assessments and expenditures made on behalf of the Federal Reserve Banks for the printing, issue 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.

Property additions are charged to expense in the Operating Fund in the year of acquisition; recoveries on the disposal of property are recorded as a reduction in expense in the Operating Fund in the year of disposal. When property is acquired or sold, the property accounts in the Property Fund are increased or reduced at full cost, with a corresponding increase or decrease in the property fund balance. Because of the short duration and temporary nature of the Board's leases, leasehold improvements have not been capitalized in the Property Fund.

The Board is self-insured against loss of its building and furniture and equipment from fire or other casualty. The construction-in-progress is covered by builder's risk insurance in excess of the cost of the work to December 31, 1972. Coverage for other customarily insured risks, such as workmen's compensation insurance and comprehensive general liability insurance, is carried by the Board.

CONSTRUCTION-IN-PROGRESS

The Martin Building and North Garage are currently under construction. The estimated cost is $41,300,000, 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.

The retention on construction-in-progress represents five percent of the general construction contract and is to be paid at satisfactory completion of the contract, expected to be during 1974.

LONG-TERM LEASES

The Board leases outside office and parking space under leases expiring from December 31, 1973 to December 31, 1977. Because the leases may be terminated with six months notice commencing in 1974, the only fixed future rental commitments are:

1973—$1,093,000
1974— 557,000

RETIREMENT PLANS

There are two contributory retirement programs for employees of the Board. About 84% 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 are the same under both plans, and benefits are similar, being 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 totaled $1,394,036 in 1972 and $1,831,173 in 1971. The reduction in Board contributions to the Federal Reserve Retirement Plan reflects utilization of surplus reserves, which resulted from investment gains. Such gains are being utilized to reduce contributions in the current and future years. There are no unfunded prior service costs under either plan.

Statistical Tables

1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED, DECEMBER 31, 1972

(In thousands of dollars)

ASSETS				
Gold certificates on hand			1,278	
Gold certificates due from U.S. Treasury:				
Interdistrict settlement fund			7,741,121	
F.R. Agents' fund			2,561,000	
Total gold certificate account				**10,303,399**
Special Drawing Rights certificate account				**400,000**
F.R. notes of other F.R. Banks				**1,158,876**
Other cash:				
United States notes			279	
Silver certificates			102	
National bank notes and F.R. Bank notes			133	
Coin			312,709	
Total other cash				**313,223**
Loans to member banks secured by—				
U.S. Govt. and agency obligations		877,554		
Other eligible paper		1,049,380		
Other paper (Sec. 10(b))		54,020	1,980,954	
Loans to others			....	
Foreign loans on gold			....	
Total loans			**1,980,954**	
Acceptances:				
Bought outright			**70,461**	
Held under repurchase agreement			**36,306**	
Federal agency obligations:				
Bought outright			**1,311,364**	
Held under repurchase agreement			**13,000**	
U.S. Govt. securities:				
Bought outright:				
Bills	**29,664,685**			
Certificates	....			
Notes	**36,681,435**			
Bonds	**3,462,370**			
Total bought outright		**69,808,490**		
Held under repurchase agreement		**97,500**		
Total U.S. Govt. securities			**69,905,990**	
Total loans and securities				**73,318,075**
Cash items in process of collection:				
Transit items			8,443,753	
Exchanges for clearing house			345,850	
Other cash items			1,992,928	
Total cash items in process of collection				**10,782,531**
Bank premises:				
Land			64,865	
Buildings (including vaults)		130,810		
Fixed machinery and equipment		81,036		
Construction account		37,980		
Total buildings		249,826		
Less depreciation allowances		120,827	128,999	
Total bank premises				**193,864**
Other assets:				
Claims account closed banks			....	
Denominated in foreign currencies			192,341	
Gold due from U.S. Treasury for account International Monetary Fund			....	
Reimbursable expenses and other items receivable			11,892	
Interest accrued			680,072	
Premium on securities			73,447	
Deferred charges			4,552	
Real estate acquired for banking-house purposes			3,055	
Suspense account			88,978	
All other			11,114	
Total other assets				**1,065,451**
Total assets				**97,535,419**

LIABILITIES

F.R. notes:			
Outstanding (issued to F.R. Banks)		62,490,095	
Less: Held by issuing F.R. Banks	2,557,634		
Forwarded for redemption	19,321	2,576,955	
F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank)			**59,913,140**
Deposits:			
Member bank reserves		**25,505,891**	
U.S. Treasurer—General account		**1,855,609**	
Foreign		**324,629**	
Other deposits:			
Nonmember bank—Clearing accounts	38,172		
Officers' and certified checks	16,148		
Reserves of corporations doing foreign banking or financing	74,575		
International organizations	123,684		
Secretary of Treasury special account	267,860		
All other	321,663		
Total other deposits		**842,102**	
Total deposits			**28,528,231**
Deferred availability cash items			**6,954,086**
Other liabilities:			
Accrued dividends unpaid		....	
Unearned discount		346	
Discount on securities		531,303	
Sundry items payable		15,823	
Suspense accounts		6,696	
All other		104	
Total other liabilities			**554,272**
Total liabilities			**95,949,729**

CAPITAL ACCOUNTS

Capital paid in	**792,845**
Surplus	**792,845**
Other capital accounts [1]	....
Total liabilities and capital accounts	**97,535,419**
Contingent liability on acceptances purchased for foreign correspondents	**179,011**

[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. 238 and 239.

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, 1972 AND 1971

(In millions of dollars unless otherwise indicated)

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1972	1971	1972	1971	1972	1971	1972	1971	1972	1971	1972	1971
ASSETS												
Gold certificate account	10,303	9,875	504	572	2,064	1,957	632	471	885	973	1,013	894
Special Drawing Rights certif. acct	400	400	23	23	93	93	23	23	33	33	36	36
F.R. notes of other F.R. Banks	1,157	1,135	169	144	206	164	54	82	76	69	121	100
Other cash	313	261	14	9	17	21	10	11	39	27	36	38
Loans:												
Secured by U.S. Govt. and agency obligations	1,975	39	59	*	926	17	93	*	194	....	52	3
Other	7	....	....	....	....	....	....	....	....	....	....	....
Acceptances:												
Bought outright	70	80	....	....	70	80	....	....	....	....	....	....
Held under repurchase agreements	36	181	....	....	36	181	....	....	....	....	....	....
Federal agency obligations:												
Bought outright	1,311	485	62	23	332	117	72	27	98	39	98	36
Held under repurchase agreements	13	101	....	....	13	101	....	....	....	....	....	....
U.S. Govt. securities:												
Bought outright	[1] 69,808	[1] 68,996	3,281	3,334	17,702	16,714	3,841	3,823	5,225	5,492	5,216	5,162
Held under repurchase agreements	98	1,222	....	....	98	1,222	....	....	....	....	....	....
Total loans and securities	73,318	71,104	3,402	3,357	19,177	18,432	4,006	3,850	5,517	5,531	5,366	5,201
Cash items in process of collection	10,782	15,648	376	840	2,543	2,922	447	803	597	981	965	1,088
Bank premises	194	150	29	2	7	8	5	3	27	24	13	13
Other assets:												
Denominated in foreign currencies	192	17	9	1	50	4	10	1	17	2	10	1
IMF gold deposited [2]	....	144	....	....	....	144	....	....	....	....	....	....
All other	874	757	41	58	211	183	45	39	71	54	71	53
Total assets	97,533	99,491	4,567	5,006	24,368	23,928	5,232	5,283	7,262	7,694	7,631	7,424

LIABILITIES												
F.R. notes	59,914	54,954	3,116	2,925	14,809	13,462	3,647	3,237	4,752	4,473	5,315	4,803
Deposits:												
Member bank reserves	25,505	27,748	936	1,116	7,073	6,960	1,011	1,164	1,552	1,969	1,248	1,515
U.S. Treasurer—General account	1,855	2,020	110	149	388	387	121	155	144	164	164	98
Foreign	325	294	13	13	111	88	15	14	26	25	15	14
Other:												
IMF gold deposits [2]	....	144	....	....	....	144	....	....	....	....	....	....
All other	840	1,237	12	17	570	706	24	24	21	33	31	41
Total deposits	28,525	31,443	1,071	1,295	8,142	8,285	1,171	1,357	1,743	2,191	1,458	1,668
Deferred availability cash items	6,951	10,963	285	689	863	1,627	307	581	582	847	734	834
Other liabilities and accrued dividends	557	647	27	29	140	168	29	32	41	47	40	43
Total liabilities	95,947	98,007	4,499	4,938	23,954	23,542	5,154	5,207	7,118	7,558	7,547	7,348
CAPITAL ACCOUNTS												
Capital paid in	793	742	34	34	207	193	39	38	72	68	42	38
Surplus	793	742	34	34	207	193	39	38	72	68	42	38
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	97,533	99,491	4,567	5,006	24,368	23,928	5,232	5,283	7,262	7,694	7,631	7,424
Contingent liability on acceptances purchased for foreign correspondents	179	254	8	12	47	66	9	13	16	23	9	13
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding	62,492	57,490	3,306	3,107	15,482	14,063	3,725	3,335	4,929	4,691	5,482	4,962
Less held by issuing Bank, and forwarded for redemption	2,578	2,536	190	182	673	601	78	98	177	218	167	159
F.R. notes, net [3]	59,914	54,954	3,116	2,925	14,809	13,462	3,647	3,237	4,752	4,473	5,315	4,803
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account	2,561	2,670	250	175	....	500	600	300	350	350	501	485
U.S. Govt. securities	61,015	55,875	3,070	3,000	15,560	13,800	3,300	3,150	4,700	4,400	5,025	4,520
Total collateral	63,576	58,545	3,320	3,175	15,560	14,300	3,900	3,450	5,050	4,750	5,526	5,005

For notes see end of table.

2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1972 AND 1971—*Continued*

(In millions of dollars unless otherwise indicated)

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1972	1971	1972	1971	1972	1971	1972	1971	1972	1971	1972	1971	1972	1971
ASSETS														
Gold certificate account	647	375	1,846	1,785	534	346	78	25	433	546	378	98	1,289	1,833
Special Drawing Rights certif. acct	22	22	70	70	15	15	7	7	15	15	14	14	49	49
F.R. notes of other F.R. Banks	166	205	102	82	35	40	27	31	39	41	44	48	118	129
Other cash	40	32	40	28	21	17	5	8	42	26	14	14	35	30
Loans:														
Secured by U.S. Govt. and agency obligations	88	...	262	3	52	...	2	1	7	5	41	...	199	10
Other	7	...	...	...	...	...	...	...	...	...	...	...	...	...
Acceptances:														
Bought outright	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Held under repurchase agreements	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Federal agency obligations:														
Bought outright	72	27	211	79	47	19	26	9	52	20	57	22	184	67
Held under repurchase agreements	...	...	...	...	...	...	...	...	...	...	...	...	...	...
U.S. Govt. securities:														
Bought outright	3,831	3,784	11,231	11,282	2,508	2,649	1,367	1,252	2,753	2,795	3,048	3,180	9,805	9,529
Held under repurchase agreements	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Total loans and securities	3,998	3,811	11,704	11,364	2,607	2,668	1,395	1,262	2,812	2,820	3,146	3,202	10,188	9,606
Cash items in process of collection	928	1,528	1,459	2,498	444	854	457	709	678	969	707	1,102	1,181	1,354
Bank premises	15	16	16	16	15	15	30	19	17	17	12	9	8	8
Other assets:														
Denominated in foreign currencies	13	1	29	2	7	1	4	*	8	1	10	1	25	2
IMF gold deposited [2]	...	...	...	...	...	...	...	...	...	...	...	...	...	...
All other	43	41	126	113	27	26	18	15	35	28	35	33	151	114
Total assets	5,872	6,031	15,392	15,958	3,705	3,982	2,021	2,076	4,079	4,463	4,360	4,521	13,044	13,125

LIABILITIES														
F.R. notes	3,191	2,809	10,064	9,573	2,320	2,119	1,041	914	2,315	2,045	2,298	2,133	7,046	6,461
Deposits:														
Member bank reserves	1,682	1,725	3,516	3,751	814	1,015	549	682	1,003	1,328	1,373	1,437	4,748	5,086
U.S. Treasurer—General account	144	139	190	255	142	154	52	59	102	164	124	83	174	213
Foreign	20	19	43	42	10	10	7	6	12	12	16	16	37	35
Other:														
IMF gold deposits [2]	....	....	....	....	....	....	....	....	....	....	....	....	....	....
All other	20	57	51	137	10	27	6	13	12	81	17	20	66	81
Total deposits	1,866	1,940	3,800	4,185	976	1,206	614	760	1,129	1,585	1,530	1,556	5,025	5,415
Deferred availability cash items	672	1,150	1,192	1,884	335	585	315	356	546	746	422	715	698	949
Other liabilities and accrued dividends	33	32	88	94	20	22	15	12	23	23	24	35	77	110
Total liabilities	5,762	5,931	15,144	15,736	3,651	3,932	1,985	2,042	4,013	4,399	4,274	4,439	12,846	12,935
CAPITAL ACCOUNTS														
Capital paid in	55	50	124	111	27	25	18	17	33	32	43	41	99	95
Surplus	55	50	124	111	27	25	18	17	33	32	43	41	99	95
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	5,872	6,031	15,392	15,958	3,705	3,982	2,021	2,076	4,079	4,463	4,360	4,521	13,044	13,125
Contingent liability on acceptances purchased for foreign correspondents	12	17	27	38	6	9	4	6	8	11	10	14	23	32
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding	3,399	3,039	10,399	9,909	2,431	2,212	1,078	948	2,405	2,124	2,418	2,275	7,438	6,825
Less held by issuing Bank, and forwarded for redemption	208	230	335	336	111	93	37	34	90	79	120	142	392	364
F.R. notes, net [3]	3,191	2,809	10,064	9,573	2,320	2,119	1,041	914	2,315	2,045	2,298	2,133	7,046	6,461
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account	....	....	700	700	155	155	....	....	....	....	5	5	....	....
U.S. Govt. securities	3,500	3,100	9,900	9,300	2,330	2,130	1,100	970	2,450	2,175	2,480	2,330	7,600	7,000
Total collateral	3,500	3,100	10,600	10,000	2,485	2,285	1,100	970	2,450	2,175	2,485	2,335	7,600	7,000

* Less than $500,000.

[1] Includes securities loaned—fully secured by U.S. Govt. securities pledged with F.R. Banks.

[2] Gold deposited by the IMF to mitigate the impact on the U.S. gold stock of purchases by foreign countries for the purpose of making gold subscriptions to the IMF under quota increases. 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 AND FEDERAL AGENCY SECURITIES, DECEMBER 31, 1970–72

(In millions of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1972	1971	1970	1972	1971
Treasury bonds:						
1966–71	2½	...	...	155	...	−155
1967–72 June	2½	...	89	58	−89	31
1967–72 Sept.	2½	...	108	89	−108	19
1967–72 Dec.	2½	...	130	125	−130	5
1971 Aug.	4	...	...	188	...	−188
1971 Nov.	3⅞	...	...	260	...	−260
1972 Feb.	4	...	197	197	−197	...
1972 Aug.	4	...	149	126	−149	23
1973 Aug.	4	331	264	199	67	65
1973 Nov.	4⅛	411	380	312	31	68
1974 Feb.	4⅛	200	180	141	20	39
1974 May	4¼	304	292	254	12	37
1974 Nov.	3⅞	68	68	53	...	15
1975–85	4¼	132	124	99	8	26
1978–83	3¼	78	76	19	2	58
1980 Feb.	4	145	122	73	23	49
1980 Nov.	3½	74	73	41	1	33
1981 Aug.	7	114	105	...	9	105
1982 Feb.	6⅜	270	...	...	270	...
1984 Aug.	6⅜	283	...	...	283	...
1985 May	3¼	47	47	31	...	16
1986 Nov.	6⅛	292	207	...	85	207
1987–92	4¼	496	462	338	34	124
1988–93	4	24	24	24	...	1
1989–94	4⅛	77	72	45	5	26
1990 Feb.	3½	84	84	80	...	4
1995 Feb.	3	2	2	2	...	...
1998 Nov.	3½	31	31	31	...	...
Total	...	3,462	3,286	2,940	176	346
Treasury notes:						
Feb. 15, 1971—C	5⅜	...	...	74	...	−74
Feb. 15, 1971—D	7¾	...	...	63	...	−63
May 15, 1971—A	5¼	...	...	1,578	...	−1,578
May 15, 1971—E	8	...	...	456	...	−456
Aug. 15, 1971—F	8¼	...	...	286	...	−286
Nov. 15, 1971—B	5⅜	...	...	81	...	−81
Nov. 15, 1971—G	7¾	...	...	7,233	...	−7,233
Feb. 15, 1972—A	4¾	...	140	137	−140	3
Feb. 15, 1972—C	7½	...	234	225	−234	9
Apr. 1, 1972—EA	1½	...	2	2	−2	...
May 15, 1972—B	4¾	...	2,381	2,371	−2,381	11
May 15, 1972—D	6¾	...	129	112	−129	17
Aug. 15, 1972—E	5	...	1,345	...	−1,345	1,345
Nov. 15, 1972—F	6	...	43	...	−43	43
Feb. 15, 1973—C	6½	122	82	...	40	82
Feb. 15, 1973—D	4⅞	1,770	1,718	...	52	1,718
May 15, 1973—A	7¾	2,626	2,618	2,608	8	10
May 15, 1973—E	4¾	2,513	...	...	2,513	...
Aug. 15, 1973—B	8⅛	232	223	202	9	21
Feb. 15, 1974—C	7¾	284	250	181	34	69
May 15, 1974—D	7¼	963	952	888	11	64
Aug. 15, 1974—B	5⅝	5,233	5,180	5,005	53	175
Nov. 15, 1974—A	5¾	1,876	1,849	1,103	27	746
Feb. 15, 1975—A	5¾	1,087	1,076	995	11	81
Feb. 15, 1975—E	5⅞	90	31	...	59	31
May 15, 1975—B	6	3,728	3,722	3,707	6	15
May 15, 1975—F	5⅞	67	...	...	67	...
Aug. 15, 1975—C	5⅞	2,372	2,314	...	58	2,314
Nov. 15, 1975—D	7	462	390	...	72	390
Feb. 15, 1976—A	6¼	2,507	2,507	2,506	...	1
Feb. 15, 1976—F	5⅞	898	...	...	898	...
May 15, 1976—B	6½	345	335	308	10	27
May 15, 1976—E	5¾	456	...	...	456	...
Aug. 15, 1976—C	7½	714	657	609	57	48
Nov. 15, 1976—D	6¼	47	16	...	31	16
Feb. 15, 1977—A	8	2,448	2,392	2,292	56	100
Aug. 15, 1977—B	7¾	336	309	217	27	92
Feb. 15, 1978—A	6¼	2,568	2,462	...	106	2,462
Nov. 15, 1978—B	6	2,425	2,201	...	224	2,201
Aug. 15, 1979—A	6¼	512	...	...	512	...
Total	...	36,681	35,554	33,236	1,127	2,318

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1972	1971	1970	1972	1971
Treasury bills:						
Tax anticipation	....	11	101	751	−90	−650
Other, due—						
Within 3 mos	....	19,651	18,670	14,128	981	4,542
3–6 mos	....	6,516	7,826	7,740	−1,310	86
After 6 mos	....	3,486	3,558	3,345	−72	213
Total	....	29,665	30,155	25,965	−490	4,191
Repurchase agreements	....	98	1,222	....	−1,124	1,222
U.S. Govt. securities—Total holdings	....	**69,906**	**70,218**	**62,142**	**−31**	**8,076**
Maturing—						
Within 90 days	....	21,671	19,741	14,670	1,930	5,071
91 days to 1 year	....	16,097	16,583	21,667	−486	−5,084
Over 1 year to 5 years	....	24,484	25,100	19,089	−616	6,011
Over 5 years to 10 years	....	6,108	7,664	6,046	−1,556	1,618
Over 10 years	....	1,546	1,129	669	417	461
Federal agency securities:						
Held outright:						
Banks for coops	....	....	24	....	−24	24
Export-Import Bank	....	106	9	....	97	9
Fed. home loan banks	....	156	76	....	80	76
Fed. intermediate credit banks	....	22	122	....	−100	122
Federal land banks	....	141	35	....	106	35
Farmers Home Admin.	....	36	....	....	36	....
Fed. Natl. Mort. Assn	....	785	201	....	584	201
Govt. Natl. Mort. Assn.—P.C.'s	....	48	19	....	29	19
U.S. Postal Service	....	14	....	....	14	....
Wash. Metro. Area Transit Authority	....	4	....	....	4	....
Total	....	1,311	485	....	826	485
Held under Rp's	....	13	101	....	−88	101

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1967–72

(In millions of dollars)

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1967		1968		1969		1970	none
Mar. 10	149	Dec. 14	430	Apr. 15	502		
11	149	15[1]	430	16	627	1971	
12[1]	149	16	447	Sept. 5	322	June 8	79
June 15	87	17	596	6	322	9	582
Sept. 8	153			7[1]	322	10	610
9	153			8	653	11	593
10[1]	153	1969		9	830	12[1]	593
		Apr. 8	151	10	1,102	13[1]	593
		9	519	11	862	14	243
1968		10	490	12	759	15	588
Sept. 9	87	11	976	13	759	16	349
Dec. 10	92	12	976	14[1]	759		
12	45	13[1]	976	15	513	1972	
13	430	14	514	16	972	Sept. 12	38

[1] Sunday or holiday.

NOTE.—Under authority of Section 14(b) of the Federal Reserve Act.

Throughout the period shown the interest rate was ¼ per cent below prevailing discount rate of F.R. Bank of New York. For data for prior years beginning with 1942, see previous ANNUAL REPORT. No holdings on dates not shown.

5. OPEN MARKET TRANSACTIONS OF THE FEDERAL RESERVE SYSTEM DURING 1972

(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	915	248	110	499	248	110	16	....	....
February	2,036	3,481	410	1,894	3,481	410	10	....	1,301
March	2,009	298	155	1,829	298	155	11	....	....
April	2,666	1,478	135	2,254	1,478	133	7	....	−2
May	475	290	....	475	291	....	....	....	2,626
June	1,294	335	96	1,094	335	6	2	....	−90
July	2,753	3,286	....	2,753	3,286	....	....	....	....
August	1,390	1,752	432	1,274	1,752	432	....	....	−1,089
September	9,369	8,673	850	9,369	8,673	850	....	....	....
October	2,795	2,425	150	2,678	2,425	150	42	....	....
November	2,638	2,880	351	2,638	2,880	300	....	....	360
December	5,083	4,640	135	5,083	4,640	....	....	....	−135
Total	33,423	29,786	2,824	31,841	29,786	2,545	87	....	2,971

Month	1–5 years			5–10 years			Over 10 years		
	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts	Gross purchases	Gross sales	Exch. or maturity shifts
January	187	....	....	191	....	....	23	....	....
February	73	....	959	52	....	−2,260	8	....	....
March	92	....	....	31	....	....	47	....	....
April	255	....	....	126	....	....	23	....	....
May	....	....	−2,626	....	....	....	....	....	....
June	69	....	....	109	....	....	20	....	....
July	....	....	....	....	....	....	....	....	....
August	79	....	673	23	....	166	15	....	250
September	....	....	....	....	....	....	....	....	....
October	35	....	....	7	....	....	32	....	....
November	....	....	−411	....	....	....	....	....	....
December	....	....	....	....	....	....	....	....	....
Total	789	....	−1,405	539	....	−2,094	167	....	250

Month	Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Federal agency obligations (net)		Bankers' acceptances (net)		Net change[1]
	Gross purchases	Gross sales		Outright	Repurchase agreements	Outright	Under repurchase agreements	
January	4,722	5,945	−666	165	−101	−4	−181	−787
February	1,694	1,694	−1,854	77	....	−12	....	−1,789
March	2,695	2,022	2,229	83	16	19	61	2,408
April	2,625	3,298	380	169	−16	1	−61	472
May	1,115	....	1,299	....	25	−4	65	1,386
June	211	1,326	−251	127	−25	−6	−65	−221
July	1,736	1,736	−533	−26	....	−10	....	−570
August	3,171	2,459	−82	−3	74	4	30	22
September	1,132	1,844	−866	−35	−74	−4	−30	−1,009
October	3,594	3,594	220	−22	....	7	....	206
November	3,547	3,547	−593	157	....	−6	....	−442
December	4,863	4,765	405	134	13	7	36	596
Total	31,103	32,228	−312	826	−88	−9	−145	272

[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

6. BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES, DECEMBER 31, 1972

(In dollars)

F.R. Bank or branch	Cost				Net book value
	Land	Buildings (including vaults) [1]	Fixed machinery and equipment	Total	
Boston	23,926,695	10,289,176	2,943,179	37,159,050	28,782,511
New York	5,215,656	13,331,975	8,078,616	26,626,247	4,517,832
Annex	592,679	1,491,116	716,472	2,800,267	477,863
Buffalo	673,076	2,562,224	1,565,400	4,800,700	2,486,571
Philadelphia	1,884,357	7,304,319	2,154,452	11,343,128	4,515,171
Cleveland	1,295,490	6,779,694	3,572,665	11,647,849	1,170,977
Cincinnati	1,444,358	13,498,836	7,503,746	22,446,940	22,446,940
Pittsburgh	1,667,994	3,577,294	2,525,243	7,770,531	3,563,118
Richmond	2,342,774	5,142,569	2,500,681	9,986,024	4,147,454
Annex 1	146,875	256,000	2,313	405,188	200,208
Annex 2	394,763	3,468,206	2,903,991	6,766,960	6,050,385
Baltimore	801,779	2,009,381	1,097,455	3,908,615	1,746,599
Charlotte	347,071	1,069,026	625,121	2,041,218	1,055,357
Atlanta	1,304,755	5,804,778	3,558,580	10,668,114	6,079,519
Birmingham	410,775	2,000,619	1,019,618	3,431,012	1,725,308
Jacksonville	164,004	1,706,794	778,871	2,649,669	1,232,865
Annex	107,924	76,236	15,843	200,003	173,318
Nashville	592,342	1,474,678	1,098,924	3,165,944	1,654,111
New Orleans	1,557,663	2,754,272	1,448,181	5,760,115	4,444,083
Chicago	6,275,490	17,664,790	10,454,359	34,394,639	13,591,006
Annex	50,000	150,132	52,739	252,871	248,054
Detroit	1,147,734	3,054,697	1,641,650	5,844,081	2,579,483
St. Louis	1,675,780	3,171,719	2,913,664	7,761,164	1,604,987
Little Rock	800,104	1,963,152	965,202	3,728,458	3,004,108
Louisville	700,075	2,859,819	1,056,659	4,616,553	2,732,898
Memphis	1,135,623	4,216,382	2,086,133	7,438,138	7,267,256
Minneapolis	1,189,784	28,553,613	....	29,743,397	29,743,397
Helena	15,709	126,401	62,977	205,087	45,731
Kansas City	1,340,561	7,567,420	3,053,232	11,961,213	5,498,829
Denver	2,997,746	3,224,957	2,274,946	8,497,649	7,383,354
Oklahoma City	647,686	1,511,600	853,051	3,012,337	1,758,353
Omaha	996,489	1,601,728	731,925	3,330,142	2,063,502
Dallas	3,723,160	4,826,832	3,570,804	12,120,796	6,500,523
El Paso	262,477	806,341	393,301	1,462,119	832,499
Houston	1,959,770	1,408,574	714,187	4,082,531	3,135,342
San Antonio	448,596	1,400,390	570,846	2,419,832	1,514,478
San Francisco	684,339	3,783,530	1,862,686	6,330,555	532,383
Annex	247,201	124,000	30,000	401,201	336,481
Los Angeles	1,022,696	4,103,844	1,608,576	6,735,116	2,691,003
Portland	207,380	1,678,512	649,432	2,535,324	1,158,537
Salt Lake City	480,222	1,878,238	707,575	3,066,035	1,832,558
Seattle	274,777	1,890,965	1,058,744	3,224,481	1,338,822
Total	73,154,424	182,164,829	81,422,039	336,741,292	193,863,774

OTHER REAL ESTATE ACQUIRED FOR BANKING-HOUSE PURPOSES

F.R. Bank or branch	Land	Buildings (including vaults) [1]	Fixed machinery and equipment	Total	Net book value
Boston	60,000	....	....	60,000	60,000
Philadelphia	1,374,514	....	....	1,374,514	1,374,514
Cleveland	395,875	381,000	....	776,875	395,875
Cincinnati	400,891	1,171,259	1,587,496	3,159,646	265,406
Richmond	326,403	....	....	326,403	326,403
Charlotte	195,404	....	....	195,404	195,404
Atlanta	305,133	....	....	305,133	305,133
Helena	131,739	....	....	131,739	131,739
Total	3,189,959	1,552,259	1,587,496	6,329,714	3,054,474

[1] Includes expenditures for construction at some offices pending allocation to appropriate accounts.

7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1972

(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													
Loans	14,376,315	1,264,110	5,894,025	509,129	648,885	538,548	1,099,813	1,927,020	282,098	168,386	526,694	629,906	887,701
Acceptances	4,095,809		4,095,809										
U.S. Govt. securities	3,771,209,607	174,721,108	960,264,085	199,459,565	289,932,494	279,471,258	201,495,170	609,927,134	141,189,525	73,638,392	153,516,165	171,213,105	516,381,606
Foreign currencies	1,117,244	49,930	288,375	57,654	100,905	57,655	75,398	173,510	37,705	25,507	46,577	61,007	143,021
All other	1,535,548	19,044	753,586	20,536	68,068	33,324	86,393	126,696	34,204	216,217	49,132	48,698	79,650
Total	3,792,334,523	176,054,192	971,295,880	200,046,884	290,750,352	280,100,785	202,756,774	612,154,360	141,543,532	74,048,502	154,138,568	171,952,716	517,491,978
CURRENT EXPENSES													
Salaries:													
Officers	15,596,648	978,622	3,265,214	1,073,640	979,183	1,387,653	1,224,608	1,389,221	1,167,821	840,074	1,048,084	903,427	1,339,101
Employees	186,278,708	11,852,095	46,858,145	8,690,898	11,705,149	14,470,549	14,989,181	24,879,063	10,634,589	7,041,604	10,836,861	8,819,050	15,501,524
Retirement and other benefits	33,728,876	2,328,685	7,929,114	1,563,087	2,140,240	2,626,637	2,662,741	4,332,488	1,996,171	1,263,156	1,974,380	1,616,005	3,296,192
Fees—Directors and others	3,291,136	149,745	1,030,298	507,915	133,435	145,735	327,401	175,661	132,964	362,250	98,996	78,847	147,889
Traveling expenses	4,873,832	312,155	662,562	203,295	363,691	394,882	709,644	572,900	270,900	318,714	315,850	285,141	464,098
Postage and expressage	46,048,583	2,855,282	5,775,079	1,695,052	3,759,710	5,329,081	5,106,516	5,912,173	3,198,913	2,014,005	3,001,292	2,502,565	4,898,915
Telephone and telegraph	5,049,075	287,139	1,023,584	192,399	221,099	430,935	634,293	719,768	273,387	200,324	399,100	320,008	347,039
Printing and supplies	15,397,840	879,818	2,837,919	783,267	873,014	1,513,381	1,616,496	2,108,556	1,106,346	643,584	1,070,432	736,570	1,228,457
Insurance	702,230	44,566	137,192	26,908	55,128	61,682	71,505	70,310	47,254	26,812	59,922	31,145	69,806
Taxes on real estate	8,705,367	1,059,609	1,449,480	202,714	676,328	344,978	483,067	1,531,680	430,446	835,002	564,522	398,889	728,652
Depreciation (buildings)	5,091,938	161,370	853,550	76,596	228,847	519,759	780,812	402,879	446,243	2,020	866,300	377,974	375,588
Light, heat, power, and water	3,879,733	229,897	702,051	166,463	426,586	333,623	319,049	515,076	291,693	153,376	343,015	178,598	220,306
Repairs and alterations	2,761,013	74,483	335,622	499,468	135,027	302,770	119,327	321,270	527,604	50,391	133,169	74,825	187,057
Rent	3,254,400	531,073	1,848,801	118,370	72,602	146,070	355,915	153,517	18,943	483	4,269	2,570	1,787
Furniture and equipment:													
Purchases	11,414,870	363,214	1,653,004	537,308	1,676,909	557,499	627,052	1,083,504	700,681	1,559,077	489,797	1,659,066	507,759
Rentals	22,480,935	1,386,202	3,617,006	1,220,282	1,335,563	2,034,590	2,103,613	3,222,015	1,433,856	1,036,397	2,035,368	1,162,516	1,893,527
All other	7,173,338	576,464	1,970,859	419,663	570,028	301,075	379,321	1,203,741	181,359	327,001	362,213	586,646	297,419
Inter-office expenses	−2,451	109,984	−1,504,676	121,940	215,961	−211,607	188,187	365,296	90,469	63,376	111,521	140,888	306,210
Subtotal	375,728,542	24,180,403	80,444,804	18,099,265	25,568,500	30,689,292	32,698,728	48,959,118	22,949,639	16,737,646	23,715,091	19,874,730	31,811,326
F.R. currency	31,454,740	1,609,898	6,042,779	1,984,684	1,843,399	3,015,015	2,754,940	4,946,457	1,306,336	555,884	1,528,108	1,644,267	4,222,973
Assessment for expenses of Board of Governors	35,234,499	1,583,800	9,148,300	1,816,200	3,221,900	1,821,100	2,397,000	5,295,000	1,187,600	801,600	1,496,500	1,939,699	4,525,800
Total	442,417,781	27,374,101	95,635,883	21,900,149	30,633,799	35,525,407	37,850,668	59,200,575	25,443,575	18,095,130	26,739,699	23,458,696	40,560,099

Less reimbursement for certain fiscal agency and other expenses	27,811,430	1,473,551	5,561,418	1,211,666	2,539,401	1,689,468	2,368,240	4,877,671	1,686,350	832,820	1,913,808	933,336	2,723,701
Net expenses	414,606,351	25,900,550	90,074,465	20,688,483	28,094,398	33,835,939	35,482,428	54,322,904	23,757,225	17,262,310	24,825,891	22,525,360	37,836,398
PROFIT AND LOSS													
Current net earnings	3,377,728,169	150,153,642	881,221,415	179,358,401	262,655,954	246,264,846	167,274,347	557,831,455	117,786,305	56,786,191	129,312,677	149,427,356	479,655,580
Additions to current net earnings:													
Profits on sales of U.S. Govt. securities	3,009,111	142,702	769,744	181,411	229,761	213,656	153,507	485,247	113,958	57,268	123,703	137,148	401,006
All other	2,002,096	87,064	515,813	62,994	97,522	128,737	113,898	459,774	177,009	126,643	107,650	1,271	123,721
Total additions	5,011,207	229,766	1,285,557	244,405	327,283	342,393	267,405	945,021	290,967	183,911	231,353	138,419	524,727
Deductions from current net earnings:													
Losses on foreign exchange transactions	51,897,303	2,332,558	13,477,005	2,695,401	4,716,952	2,695,401	3,524,755	7,723,360	1,825,046	1,192,197	2,177,055	2,850,905	6,686,668
All other	2,729,691	2,387,289	106,638	2,575	2,917	11,765	2,354	53,127	55,771	88,127	3,326	5,743	10,059
Total deductions	54,626,994	4,719,847	13,583,643	2,697,976	4,719,869	2,707,166	3,527,109	7,776,487	1,880,817	1,280,324	2,180,381	2,856,648	6,696,727
Net deduction from (−) current net earnings	−49,615,787	−4,490,081	−12,298,086	−2,453,571	−4,392,586	−2,364,773	−3,259,704	−6,831,466	−1,589,850	−1,096,413	−1,949,028	−2,718,229	−6,172,000
Net earnings before payments to U.S. Treasury	3,328,112,382	145,663,561	868,923,329	176,904,830	258,263,368	243,900,073	164,014,643	550,999,989	116,196,455	55,689,778	127,363,649	146,709,127	473,483,580
Dividends paid	46,183,719	2,006,870	11,928,649	2,344,496	4,205,725	2,419,254	3,174,260	7,126,101	1,544,018	1,051,262	1,964,630	2,519,556	5,898,898
Payments to U.S. Treasury (interest on F.R. notes)	3,231,267,663	143,785,791	843,245,180	174,072,684	250,144,793	238,204,519	155,898,833	530,384,188	112,873,437	53,401,066	123,529,669	142,050,921	463,676,582
Transferred to or from (−) surplus	50,661,000	−129,100	13,749,500	487,650	3,912,850	3,276,300	4,941,550	13,489,700	1,779,000	1,237,450	1,869,350	2,138,650	3,908,100
Surplus, January 1	742,184,050	33,636,750	192,854,450	38,408,900	67,881,900	38,288,650	50,378,000	110,660,450	25,176,100	16,895,150	31,527,450	41,014,700	95,461,550
Surplus, December 31	792,845,050	33,507,650	206,603,950	38,896,550	71,794,750	41,564,950	55,319,550	124,150,150	26,955,100	18,132,600	33,396,800	43,153,350	99,369,650

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

8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914–72

(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	1,742,775	...	...	...	...	...
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	...	...	...	...	48,334,334
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	82,087,845	6,119,673	59,974,466	...	...	...	15,993,808
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	...	...	...	8,464,425
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	...	...	...	...	−916,851
1934	48,902,813	29,241,396	15,231,409	8,781,661	...	...	...	−60,323	6,510,075
1935	42,751,959	31,577,443	9,437,758	8,504,974	...	297,667	...	27,695	607,422
1936	37,900,639	29,874,023	8,512,433	7,829,581	...	227,448	...	102,880	352,524
1937	41,233,135	28,800,614	10,801,247	7,940,966	...	176,625	...	67,304	2,616,352
1938	36,261,428	28,911,600	9,581,954	8,019,137	...	119,524	...	−419,140	1,862,433
1939	38,500,665	28,646,855	12,243,365	8,110,462	...	24,579	...	−425,653	4,533,977
1940	43,537,805	29,165,477	25,860,025	8,214,971	...	82,152	...	−54,456	17,617,358
1941	41,380,095	32,963,150	9,137,581	8,429,936	...	141,465	...	−4,333	570,513
1942	52,662,704	38,624,044	12,470,451	8,669,076	...	197,672	...	49,602	3,554,101
1943	69,305,715	43,545,564	49,528,433	8,911,342	...	244,726	...	135,003	40,237,362
1944	104,391,829	49,175,921	58,437,788	9,500,126	...	326,717	...	201,150	48,409,795
1945	142,209,546	48,717,271	92,662,268	10,182,851	...	247,659	...	262,133	81,969,625
1946	150,385,033	57,235,107	92,523,935	10,962,160	...	67,054	...	27,708	81,467,013
1947	158,655,566	65,392,975	95,235,592	11,523,047	...	35,605	75,223,818	86,772	8,366,350
1948	304,160,818	72,710,188	197,132,683	11,919,809	...	...	166,690,356	...	18,522,518
1949	316,536,930	77,477,676	226,936,980	12,329,373	...	...	193,145,837	...	21,461,770

1950	275,838,994	80,571,771	231,561,340	13,082,991	...	...	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	15,558,337	...	...	342,567,985	...	40,336,862
1954	438,486,040	109,732,931	328,619,468	16,442,236	...	...	276,289,457	...	35,887,775
1955	412,487,931	110,060,023	302,162,452	17,711,937	...	...	251,740,721	...	32,709,794
1956	595,649,092	121,182,496	474,443,160	18,904,897	...	...	401,555,581	...	53,982,682
1957	763,347,530	131,814,003	624,392,613	20,080,527	...	...	542,708,405	...	61,603,682
1958	742,068,150	137,721,655	604,470,670	21,197,452	...	...	524,058,650	...	59,214,569
1959	886,226,116	144,702,706	839,770,663	22,721,687	...	...	910,649,768	...	−93,600,791
1960	1,103,385,257	153,882,275	963,377,684	23,948,225	...	...	896,816,359	...	42,613,100
1961	941,648,170	161,274,575	783,855,223	25,569,541	...	...	687,393,382	...	70,892,300
1962	1,048,508,335	176,136,134	872,316,422	27,412,241	...	...	799,365,981	...	45,538,200
1963	1,151,120,060	187,273,357	964,461,538	28,912,019	...	...	879,685,219	...	55,864,300
1964	1,343,747,303	197,395,889	1,147,077,362	30,781,548	...	...	1,582,118,614	...	−465,822,800
1965	1,559,484,027	204,290,186	1,356,215,455	32,351,602	...	...	1,296,810,053	...	27,053,800
1966	1,908,499,896	207,401,126	1,702,095,000	33,696,336	...	...	1,649,455,164	...	18,943,500
1967	2,190,403,752	220,120,846	1,972,376,782	35,027,312	...	...	1,907,498,270	...	29,851,200
1968	2,764,445,943	242,350,370	2,530,615,569	36,959,336	...	...	2,463,628,983	...	30,027,250
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
1971	3,723,369,921	377,184,800	3,440,451,196	43,488,074	...	...	3,356,559,873	...	40,403,250
1972	3,792,334,523	414,606,351	3,328,112,382	46,183,719	...	...	3,231,267,663	...	50,661,000
Total 1914–72	36,954,419,771	5,420,205,799	31,662,148,277	897,909,000	149,138,300	2,188,893	29,691,398,492	−3,657	921,517,249
Aggregate for each F.R. Bank, 1914–72:									
Boston	1,952,645,460	361,249,939	1,598,091,324	49,369,140	7,111,395	280,843	1,497,592,060	135,411	43,602,475
New York	9,386,847,632	1,168,908,409	8,255,408,337	265,927,358	68,006,262	369,116	7,677,678,489	−433,413	243,860,521
Philadelphia	2,036,722,073	306,698,557	1,741,290,794	60,098,399	5,558,901	722,406	1,621,393,655	290,661	53,226,772
Cleveland	3,000,757,354	443,736,568	2,565,622,366	84,846,850	4,842,447	82,930	2,390,831,503	−9,906	85,028,543
Richmond	2,538,283,230	395,712,126	2,152,838,383	41,911,367	6,200,189	172,493	2,057,181,089	−71,517	47,444,758
Atlanta	1,968,324,501	369,974,956	1,602,588,122	45,379,296	8,950,561	79,264	1,487,587,418	5,491	60,586,090
Chicago	6,043,921,817	756,672,313	5,303,803,155	120,586,067	25,313,526	151,045	5,018,261,933	11,682	139,478,904
St. Louis	1,427,731,266	301,239,494	1,130,095,881	30,802,458	2,755,629	7,464	1,064,482,117	−26,515	32,074,728
Minneapolis	803,637,423	196,063,179	611,343,133	20,877,395	5,202,900	55,615	563,132,541	64,874	22,009,813
Kansas City	1,519,314,869	310,873,711	1,212,941,741	35,386,536	6,939,100	64,213	1,133,023,817	−8,674	37,536,750
Dallas	1,557,068,519	267,923,219	1,294,166,660	43,623,994	560,049	102,083	1,202,394,368	55,337	47,430,828
San Francisco	4,719,165,627	541,153,258	4,193,958,381	99,100,140	7,697,341	101,421	3,977,839,502	−17,089	109,237,067
Total	36,954,419,771	5,420,205,729	31,662,148,277	897,909,000	149,138,300	2,188,893	29,691,398,492	−3,657	[2] 921,517,249

[1] Current earnings less current expenses, plus or minus adjustment for profit and loss items.

[2] The $921,517.249 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 $792,845,050, on Dec. 31, 1972.

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

9. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1969–72

(Number in thousands; amounts in thousands of dollars)

Operation	1972	1971	1970	1969
NUMBER OF PIECES HANDLED [1]				
Loans	6	7	13	23
Currency received and counted	6,453,899	6,270,732	r 6,029,373	5,720,499
Currency verified and destroyed	2,246,740	2,446,244	2,174,444	2,115,564
Coin received and counted	14,716,546	13,736,840	r 13,402,165	12,873,277
Checks handled:				
U.S. Govt. checks	617,408	628,602	622,144	575,118
Postal money orders	177,257	181,054	183,574	187,123
All other	8,453,733	r 7,704,742	r 7,158,441	6,503,449
Collection items handled:				
U.S. Govt. coupons paid	11,911	13,523	r 14,210	13,118
All other	25,720	r 26,928	r 27,364	27,895
Issues, redemptions, and exchanges of U.S. Govt. securities	258,947	r 258,152	r 276,172	283,175
Transfers of funds	9,494	8,148	r 7,363	6,662
Food stamps redeemed	1,849,647	1,842,026	r 1,277,007	519,595
AMOUNTS HANDLED				
Loans	61,620,130	85,254,860	129,578,588	154,305,388
Currency received and counted	51,535,480	48,783,022	45,718,990	43,273,577
Currency verified and destroyed	12,068,786	13,261,100	12,092,137	11,832,628
Coin received and counted	1,755,727	1,602,994	1,533,972	1,432,623
Checks handled:				
U.S. Govt. checks	235,163,523	211,996,633	208,858,062	208,155,031
Postal money orders	4,718,577	4,806,963	4,736,564	4,603,938
All other [2]	3,317,873,664	r 3,824,868,058	r 3,330,673,690	2,774,422,163
Collection items handled:				
U.S. Govt. coupons paid	5,825,599	6,239,761	5,702,894	6,849,373
All other	24,770,140	r 20,879,111	21,022,409	19,782,240
Issues, redemptions, and exchanges of U.S. Govt. securities	2,052,735,038	1,951,122,313	r 1,433,118,703	1,151,579,538
Transfers of funds	17,916,041,090	14,858,172,824	12,332,001,386	9,800,324,538
Food stamps redeemed	3,525,383	3,116,904	r 1,840,100	694,394

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, 1972

Federal Reserve Bank (including branches)	President	Other officers		Employees [1]		Total	
	Annual salary	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston	$ 53,000	36	$ 913,900	1,584	$ 12,917,002	1,621	$ 13,883,902
New York	90,000	100	3,172,200	4,779	47,120,899	4,880	50,383,099
Philadelphia	48,000	41	958,700	1,239	9,436,681	1,281	10,443,381
Cleveland	51,000	39	1,000,750	1,464	11,778,985	1,504	12,830,735
Richmond	51,000	56	1,349,800	1,968	15,342,400	2,025	16,743,200
Atlanta	51,000	51	1,330,800	2,247	15,364,471	2,299	16,549,271
Chicago	67,500	54	1,330,100	3,243	25,176,574	3,298	26,574,174
St. Louis	56,000	47	1,114,800	1,529	11,152,803	1,577	12,323,603
Minneapolis	48,000	30	786,700	829	6,907,700	860	7,742,400
Kansas City	56,000	43	965,600	1,505	10,660,593	1,549	11,682,193
Dallas	51,000	37	848,350	1,314	9,560,441	1,352	10,459,791
San Francisco	70,000	58	1,319,250	1,949	15,469,036	2,008	16,858,286
Total	$692,500	592	$14,893,950	23,650	$190,887,585	24,254	$206,474,035

[1] Includes 1,072 part-time employees.

11. FEDERAL RESERVE BANK INTEREST RATES, DECEMBER 31, 1972

(Per cent per annum)

Federal Reserve Bank	Loans to member banks— Under Secs. 13 and 13a [1]	Loans to member banks— Under Sec. 10(b) [2]	Loans to all others under last par. Sec. 13 [3]
Boston	4½	5	[4] 6½
New York	4½	5	6½
Philadelphia	4½	5	6½
Cleveland	4½	5	6½
Richmond	4½	5	[4] 6½
Atlanta	4½	5	[4] 6½
Chicago	4½	5	[4] 6½
St. Louis	4½	5	[4] 6½
Minneapolis	4½	5	[4] 6½
Kansas City	4½	5	[4] 6½
Dallas	4½	5	[4] 6½
San Francisco	4½	5	6½

[1] Discounts of eligible paper and advances secured by such paper or by U.S. Govt. obligations or any other obligations eligible for Federal Reserve Bank purchase. 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.

[4] As of Sept. 19, 1972 (except for Boston, Oct. 2; and Atlanta, Oct. 31), a rate of 4½ per cent was approved on advances to nonmember banks, to be applicable in special circumstances resulting from implementation of the then pending changes in Regulation J.

12. 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	12¼	5¼
May 1	26	20	14	6
1938—Apr. 16	22¾	17½	12	5
1941—Nov. 1	26	20	14	6
1942—Aug. 20	24	...	...	...
Sept. 14	22	...	...	...
Oct. 3	20	...	...	...
1948—Feb. 27	22	...	...	...
June 11	24	...	...	...
Sept. 24, 16	26	22	16	7½
1949—May 5, 1	24	21	15	7
June 30, July 1	...	20	14	6
Aug. 1	...	...	13	...
Aug. 11, 16	23½	19½	12	5
Aug. 18	23	19	...	...
Aug. 25	22½	18½	...	...
Sept. 1	22	18	...	...
1951—Jan. 11, 16	23	19	13	6
Jan. 25, Feb. 1	24	20	14	...
1953—July 9, 1	22	19	13	...
1954—June 24, 16	21	...	...	5
July 29, Aug. 1	20	18	12	...
1958—Feb. 27, Mar. 1	19½	17½	11½	...
Mar. 20, Apr. 1	19	17	11	...
Apr. 17	18½	...	...	...
Apr. 24	18	16½	...	...
1960—Sept. 1	17½	...	...	...
Nov. 24	...	...	12	...
Dec. 1	16½	...	...	...
1962—July 28	(3)	...	...	...
Oct. 25, Nov. 1	...	...	...	4

July 14, 1966, through November 8, 1972

Effective date [1]	Net demand deposits [2]				Time deposits [4] (all classes of banks)		
	Reserve city banks		Country banks		Savings	Other time	
	Under $5 million	Over $5 million	Under $5 million	Over $5 million		Under $5 million	Over $5 million
1966—July 14, 21	[5] 16½		[5] 12		[5] 4	[5] 4	5
Sept. 8, 15	...		...		...	...	6
1967—Mar. 2	...		...		3½	3½	...
Mar. 16	...		...		3	3	...
1968—Jan. 11, 18	16½	17	12	12½	...	...	...
1969—Apr. 17	17	17½	12½	13	...	...	...
1970—Oct. 1	...	...	...	...	...	...	5

For notes see opposite page.

12. MEMBER BANK RESERVE REQUIREMENTS—*Continued*

Beginning November 9, 1972

Effective date	Net demand deposits [2]					Time deposits [4]		
							Other time	
	$2 million and under	$2 million to $10 million	$10 million to $100 million	$100 million to $400 million	Over $400 million [6]	Savings	$5 million and under	Over $5 million
1972—Nov. 9	8	10	12	[7] 16½	17½	[5] 3	[5] 3	[5] 5
Nov. 16	....	....	....	13	....	....	....	....
In effect Dec. 31, 1972	8	10	12	13	17½	3	3	5

Legal requirements—Dec. 31, 1972:

Net demand deposits:	Minimum	Maximum
Reserve city banks	10	22
Other banks	7	14
Time deposits	3	10

[1] When two dates are shown, the first applies to the change at central reserve or reserve city banks and the second to the change at country banks.

[2] (a) 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).

(b) 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.

(c) When requirement schedules are graduated, each deposit interval applies to that part of the deposits of each bank.

(d) 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 earlier ANNUAL REPORTS.

[3] Authority of the Board of Governors to classify or reclassify cities as central reserve cities was terminated effective July 28, 1962.

[4] Effective Jan. 5, 1967, time deposits such as Christmas and vacation club accounts became subject to the same requirements as savings deposits.

See also notes 2(b), 2(c), and 2(d) above.

[5] See columns above for earliest effective date of this rate.

[6] Effective Nov. 9, 1972, a new criterion was adopted to designate reserve cities, and on the same date requirements for reserves against net demand deposits of member banks were restructured to provide that each member bank will maintain reserves related to the size of its net demand deposits The new reserve city designations are as follows: A bank having net demand deposits of more than. $400 million is considered to have the character of business of a reserve city bank, and the presence of the head office of such a bank constitutes designation of that place as a reserve city. Cities in which there are F.R. Banks or branches are also reserve cities. Any banks having net demand deposits of $400 million or less are considered to have the character of business of banks outside of reserve cities and are permitted to maintain reserves at ratios set for banks not in reserve cities. For details concerning the restructuring of reserve requirements, see amendments to Regulation D as described on p. 78–81 of this REPORT.

[7] The 16½ per cent requirement applied for 1 week, only to former reserve city banks. For other banks, the 13 per cent requirement was continued in this deposit interval.

13. MAXIMUM INTEREST RATES PAYABLE ON TIME AND SAVINGS DEPOSITS

(Per cent per annum)

Rates Nov. 1, 1933—July 19, 1966

Type of deposit	Effective date: Nov. 1, 1933	Feb. 1, 1935	Jan. 1, 1936	Jan. 1, 1957	Jan. 1, 1962	July 17, 1963	Nov. 24, 1964	Dec. 6, 1965
Saving deposits:								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Postal savings deposits: [1]								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Other time deposits: [2]								
12 months or more	3	2½	2½	3	4			
6 months to 12 months					3½	4	4½	
90 days to 6 months	3	2½	2	2½	2½			5½
Less than 90 days (30–89 days)	3	2½	1	1	1	1	4	

Rates beginning July 20, 1966

Type of deposit	Effective date: July 20, 1966	Sept. 26, 1966	Apr. 19, 1968	Jan. 21, 1970
Savings deposits	4	4	4	4½
Other time deposits: [2]				
Multiple maturity: [3]				
30–89 days	4	4	4	4½
90 days–1 year				5
1 year to 2 years	5	5	5	5½
2 years and over				5¾
Single maturity:				
Less than $100,000:				
30 days to 1 year				5
1 year to 2 years	5½	5	5	5½
2 years and over				5¾
$100,000 and over:				
30–59 days			5½	(4)
60–89 days			5¾	(4)
90–179 days	5½	5½	6	6¾
180 days to 1 year			6¼	7
1 year or more				7½

[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.

14. 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 T	U	G	On convertible bonds T	U	G	On short sales (T)
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			50			70
June 8	1970—May 5	80			60			80
1970—May 6	1971—Dec. 3	65			50			65
1972—Dec. 4	1972—Nov. 22	55			50			55
Effective Nov. 24, 1972		65			50			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.

15. FEES AND RATES UNDER REGULATION V ON LOANS GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950, DECEMBER 31, 1972

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.

16. PRINCIPAL ASSETS AND LIABILITIES, AND NUMBER OF COMMERCIAL AND MUTUAL SAVINGS BANKS, BY CLASS OF BANK, DECEMBER 31, 1972, AND DECEMBER 31, 1971

(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, 1972 [1]										
Loans and investments, total	693,220	596,010	463,037	n.a.	n.a.	132,973	n.a.	n.a.	97,210	n.a.	n.a.
Loans	484,364	413,804	328,233	:	:	85,571	:	:	70,560	:	:
Investments	208,856	182,206	134,804	:	:	47,402	:	:	26,650	:	:
U.S. Treasury securities	69,168	65,668	46,796	:	:	18,872	:	:	3,500	:	:
Other securities	139,688	116,538	88,008	:	:	28,530	:	:	23,150	:	:
Cash assets	102,279	100,739	87,063	:	:	13,676	:	:	1,540	:	:
Deposits, total	693,283	601,733	469,937	:	:	131,796	:	:	91,550	:	:
Interbank	36,260	36,260	33,330	:	:	2,930	:	:	....	:	:
Other demand	252,573	252,443	198,173	:	:	54,270	:	:	130	:	:
Other time	404,450	313,030	238,434	:	:	74,596	:	:	91,420	:	:
Total capital accounts	58,950	52,150	41,250	:	:	10,900	:	:	6,800	:	:
Number of banks	14,412	13,927	5,704	4,612	1,092	8,223	8,017	206	485	325	160
	December 31, 1971										
Loans and investments, total	603,720	517,244	405,570	302,756	102,814	111,674	108,527	3,147	86,476	75,048	11,428
Loans	412,402	347,610	278,199	206,758	71,441	69,411	67,188	2,224	64,792	56,557	8,235
Investments	191,318	169,634	127,371	95,998	31,373	42,263	41,340	923	21,684	18,491	3,193
U.S. Treasury securities	71,197	64,930	47,633	36,386	11,247	17,297	17,058	239	6,267	5,156	1,111
Other securities	120,121	104,704	79,738	59,612	20,125	24,966	24,282	684	15,417	13,335	2,082
Cash assets	101,228	99,832	86,189	59,191	26,998	13,643	12,092	1,551	1,396	1,273	123
Deposits, total	620,600	538,626	425,862	314,085	111,777	112,764	109,841	2,923	81,974	71,497	10,477
Interbank	33,494	33,494	31,777	18,619	13,158	1,717	1,388	329	....	....	....
Other demand	232,586	231,861	183,912	135,006	48,906	47,949	46,504	1,445	725	683	42
Other time	354,520	273,271	210,173	160,460	49,712	63,098	61,949	1,149	81,249	70,814	10,435
Total capital accounts	53,539	47,211	37,279	27,065	10,214	9,932	9,451	480	6,328	5,415	913
Number of banks	14,272	13,783	5,727	4,599	1,128	8,056	7,875	181	489	326	163

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 1918–72 AND END OF MONTH 1971 AND 1972

(In millions of dollars)

Period	Factors supplying reserve funds										
	F.R. Bank credit outstanding								Gold stock [5]	Special Drawing Rights certif. acct.	Treasury currency outstanding [6]
	U.S. Govt. securities [1]			Loans	Float [2]	All other [3]	Other F.R. assets [4]	Total			
	Total	Bought outright	Held under repurchase agreements								
1918...	239	239	....	1,766	199	294	......	2,498	2,873	......	1,795
1919...	300	300	....	2,215	201	575	......	3,292	2,707	......	1,707
1920...	287	287	....	2,687	119	262	......	3,355	2,639	......	1,709
1921...	234	234	....	1,144	40	146	......	1,563	3,373	......	1,842
1922...	436	436	....	618	78	273	......	1,405	3,642	......	1,958
1923...	134	80	54	723	27	355	......	1,238	3,957	......	2,009
1924...	540	536	4	320	52	390	......	1,302	4,212	......	2,025
1925...	375	367	8	643	63	378	......	1,459	4,112	......	1,977
1926...	315	312	3	637	45	384	......	1,381	4,205	......	1,991
1927...	617	560	57	582	63	393	......	1,655	4,092	......	2,006
1928...	228	197	31	1,056	24	500	......	1,809	3,854	......	2,012
1929...	511	488	23	632	34	405	......	1,583	3,997	......	2,022
1930...	729	686	43	251	21	372	......	1,373	4,306	......	2,027
1931...	817	775	42	638	20	378	......	1,853	4,173	......	2,035
1932...	1,855	1,851	4	235	14	41	......	2,145	4,226	......	2,204
1933...	2,437	2,435	2	98	15	137	......	2,688	4,036	......	2,303
1934...	2,430	2,430	....	7	5	21	......	2,463	8,238	......	2,511
1935...	2,431	2,430	1	5	12	38	......	2,486	10,125	......	2,476
1936...	2,430	2,430	....	3	39	28	......	2,500	11,258	......	2,532
1937...	2,564	2,564	....	10	19	19	......	2,612	12,760	......	2,637
1938...	2,564	2,564	....	4	17	16	......	2,601	14,512	......	2,798
1939...	2,484	2,484	....	7	91	11	......	2,593	17,644	......	2,963
1940...	2,184	2,184	....	3	80	8	......	2,274	21,995	......	3,087
1941...	2,254	2,254	....	3	94	10	......	2,361	22,737	......	3,247
1942...	6,189	6,189	....	6	471	14	......	6,679	22,726	......	3,648
1943...	11,543	11,543	....	5	681	10	......	12,239	21,938	......	4,094
1944...	18,846	18,846	....	80	815	4	......	19,745	20,619	......	4,131
1945...	24,262	24,262	....	249	578	2	......	25,091	20,065	......	4,339
1946...	23,350	23,350	....	163	580	1	......	24,093	20,529	......	4,562
1947...	22,559	22,559	....	85	535	1	......	23,181	22,754	......	4,562
1948...	23,333	23,333	....	223	541	1	......	24,097	24,244	......	4,589
1949...	18,885	18,885	....	78	534	2	......	19,499	24,427	......	4,598
1950...	20,778	20,725	53	67	1,368	3	......	22,216	22,706	......	4,636
1951...	23,801	23,605	196	19	1,184	5	......	25,009	22,695	......	4,709
1952...	24,697	24,034	663	156	967	4	......	25,825	23,187	......	4,812
1953...	25,916	25,318	598	28	935	2	......	26,880	22,030	......	4,894
1954...	24,932	24,888	44	143	808	1	......	25,885	21,713	......	4,985
1955...	24,785	24,391	394	108	1,585	29	......	26,507	21,690	......	5,008
1956...	24,915	24,610	305	50	1,665	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

For notes see last two pages of table.

Factors absorbing reserve funds

Currency in circulation	Treasury cash holdings[7]	Deposits, other than member bank reserves, with F.R. Banks			Other F.R. accounts[4]	Other F.R. liabilities and capital[4]	Member bank reserves			
		Treasury	Foreign	Other[4]			With F.R. Banks	Currency and coin[8]	Required[9]	Excess[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	18	298	....	1,781	....	....	....
4,403	214	96	12	15	285	....	1,753	....	1,654	99
4,530	225	11	3	26	276	....	1,934	....	....	....
4,757	213	38	4	19	275	....	1,898	....	1,884	14
4,760	211	51	19	20	258	....	2,220	....	2,161	59
4,817	203	16	8	21	272	....	2,212	....	2,256	−44
4,808	201	17	46	19	293	....	2,194	....	2,250	−56
4,716	208	18	5	21	301	....	2,487	....	2,424	63
4,686	202	23	6	21	348	....	2,389	....	2,430	−41
4,578	216	29	6	24	393	....	2,355	....	2,428	−73
4,603	211	19	6	22	375	....	2,471	....	2,375	96
5,360	222	54	79	31	354	....	1,961	....	1,994	−33
5,388	272	8	19	24	355	....	2,509	....	1,933	576
5,519	284	3	4	128	360	....	2,729	....	1,870	859
5,536	3,029	121	20	169	241	....	4,096	....	2,282	1,814
5,882	2,566	544	29	226	253	....	5,587	....	2,743	2,844
6,543	2,376	244	99	160	261	....	6,606	....	4,622	1,984
6,550	3,619	142	172	235	263	....	7,027	....	5,815	1,212
6,856	2,706	923	199	242	260	....	8,724	....	5,519	3,205
7,598	2,409	634	397	256	251	....	11,653	....	6,444	5,209
8,732	2,213	368	1,133	599	284	....	14,026	....	7,411	6,615
11,160	2,215	867	774	586	291	....	12,450	....	9,365	3,085
15,410	2,193	799	793	485	256	....	13,117	....	11,129	1,988
20,449	2,303	579	1,360	356	339	....	12,886	....	11,650	1,236
25,307	2,375	440	1,204	394	402	....	14,373	....	12,748	1,625
28,515	2,287	977	862	446	495	....	15,915	....	14,457	1,458
28,952	2,272	393	508	314	607	....	16,139	....	15,577	562
28,868	1,336	870	392	569	563	....	17,899	....	16,400	1,499
28,224	1,325	1,123	642	547	590	....	20,479	....	19,277	1,202
27,600	1,312	821	767	750	706	....	16,568	....	15,550	1,018
27,741	1,293	668	895	565	714	....	17,681	....	16,509	1,172
29,206	1,270	247	526	363	746	....	20,056	....	19,667	389
30,433	1,270	389	550	455	777	....	19,950	....	20,520	−570
30,781	761	346	423	493	839	....	20,160	....	19,397	763
30,509	796	563	490	441	907	....	18,876	....	18,618	258
31,158	767	394	402	554	925	....	19,005	....	18,903	102
31,790	775	441	322	426	901	....	19,059	....	19,089	−30
31,834	761	481	356	246	998	....	19,034	....	19,091	−57
32,193	683	358	272	391	1,122	....	18,504	....	18,574	−70
32,591	391	504	345	694	841	....	18,174	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

For notes see last two pages of table.

17. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918–72 AND END OF MONTH 1971 AND 1972—*Continued*

(In millions of dollars)

Period	Factors supplying reserve funds										
	F.R. Bank credit outstanding								Gold stock[5]	Special Drawing Rights certif. acct.	Treasury currency outstanding[6]
	U.S. Govt. securities[1]			Loans	Float[2]	All other[3]	Other F.R. assets[4]	Total			
	Total	Bought outright[10]	Held under repurchase agreements								
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	[10]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
1971...	70,804	69,481	1,323	39	4,343	261	1,068	76,515	10,132	400	7,710
1972...	71,230	71,119	111	1,981	3,974	106	1,260	78,551	10,410	400	8,313
1971—											
Jan ..	61,783	61,783	....	308	2,750	59	1,267	66,167	10,732	400	7,172
Feb..	62,462	62,462	....	263	2,832	54	832	66,443	10,732	400	7,213
Mar .	64,345	62,841	1,504	391	2,550	138	997	68,421	10,732	400	7,270
Apr..	63,721	63,721	....	81	2,824	56	1,169	67,851	10,732	400	7,329
May .	64,764	64,764	....	1,051	2,414	112	927	69,268	10,332	400	7,390
June .	65,518	65,518	....	446	2,549	62	1,086	69,661	10,332	400	7,420
July..	65,841	65,841	....	778	2,618	55	1,209	70,501	10,332	400	7,445
Aug .	66,937	66,635	302	858	2,250	107	786	70,938	10,132	400	7,479
Sept .	67,627	67,627	....	198	3,139	51	1,001	72,016	10,132	400	7,504
Oct..	67,301	67,301	....	212	3,585	52	1,208	72,358	10,132	400	7,526
Nov .	68,157	[11]68,157	....	146	2,707	58	841	71,909	10,132	400	7,563
Dec..	70,804	69,481	1,323	39	4,343	261	1,068	76,515	10,132	400	7,710
1972—											
Jan ..	70,202	70,202	....	15	1,884	75	1,280	73,456	10,132	400	7,759
Feb..	68,425	[11]68,425	....	6	2,715	63	656	71,865	9,588	400	7,824
Mar .	70,754	70,065	689	255	3,217	143	878	75,247	9,588	400	7,895
Apr..	71,286	71,286	....	60	2,975	83	1,086	75,490	9,588	400	7,949
May .	72,611	71,471	1,140	1,594	2,846	143	845	78,039	10,410	400	8,020
June .	72,462	72,462	....	130	3,299	73	990	76,954	10,410	400	8,066
July..	71,901	71,901	....	83	2,224	63	1,268	75,539	10,410	400	8,095
Aug .	71,890	71,104	786	1,092	3,396	96	774	77,248	10,410	400	8,152
Sept .	70,915	70,915	....	239	3,643	62	1,050	75,909	10,410	400	8,200
Oct..	71,114	71,114	....	481	3,511	70	1,328	76,504	10,410	400	8,249
Nov .	70,678	70,678	....	501	2,350	63	1,041	74,633	10,410	400	8,283
Dec..	71,230	71,119	111	1,981	3,974	106	1,260	78,551	10,410	400	8,313

[1] U.S. Govt. securities include Federal agency obligations held under repurchase agreement as of Dec. 1, 1966, and Federal agency issues bought outright as of Sept. 29, 1971.

[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 silver certificates and Treasury notes of 1890, and the following coin and paper currency held in the

Factors absorbing reserve funds

Currency in circulation	Treasury cash holdings[7]	Deposits, other than member bank reserves, with F.R. Banks			Other F.R. accounts[4]	Other F.R. liabilities and capital[4]	Member bank reserves			
		Treasury	Foreign	Other[4]			With F.R. Banks	Currency and coin[8]	Required[9]	Excess[9]
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
61,068	460	2,020	294	999	....	2,131	27,788	5,743	32,496	1,035
66,516	345	1,855	325	840	....	2,143	25,647	6,216	32,044	98
55,348	467	976	129	769	....	2,217	24,565	5,449	29,723	291
55,611	471	1,064	147	776	....	2,309	24,409	5,022	29,376	55
56,304	483	858	201	794	....	2,255	25,932	5,124	29,567	1,489
56,592	509	1,322	162	730	....	2,246	24,752	5,283	30,418	−383
57,393	507	805	208	676	....	2,302	25,499	5,219	29,992	726
58,393	454	1,274	199	688	....	2,256	24,550	5,372	30,050	−128
58,558	479	1,115	162	754	....	2,291	25,321	5,438	30,461	298
58,890	452	987	122	669	....	2,361	25,467	5,354	30,199	622
58,757	453	2,102	166	777	....	2,374	25,424	5,508	30,782	150
59,157	477	1,876	135	733	....	2,337	25,697	5,548	30,563	682
60,558	442	1,996	177	697	....	2,351	23,782	5,490	30,689	−1,417
61,068	460	2,020	294	999	....	2,131	27,788	5,743	32,496	1,035
59,429	505	2,860	147	814	....	2,344	25,650	5,860	32,190	−680
59,795	370	884	137	677	....	2,294	25,525	5,427	31,533	−581
60,388	402	1,293	191	647	....	2,339	27,869	5,397	32,238	1,028
60,535	401	1,871	228	631	....	2,346	27,415	5,571	32,689	297
61,702	358	2,144	157	584	....	2,388	29,538	5,513	32,728	2,323
62,201	351	2,344	257	836	....	2,359	27,482	5,594	32,805	271
62,435	337	2,298	160	620	....	2,406	26,185	5,789	32,901	−927
62,744	304	1,727	192	592	....	2,420	28,227	5,796	32,566	1,457
62,599	355	1,394	193	614	....	2,247	27,515	5,868	33,501	−118
63,586	369	1,613	192	597	....	2,449	26,757	5,847	33,499	−895
65,137	333	1,182	188	629	....	2,477	23,783	5,868	30,673	[12]−572
66,516	345	1,855	325	840	....	2,143	25,647	6,216	32,044	98

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. From Jan. 1963 to Sept. 11, 1968, 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] Beginning 1969 includes securities loaned—fully secured by U.S. Govt. securities pledged with F.R. Banks.

[11] This figure also includes securities sold, and scheduled to be bought back, under matched sale/purchase transactions.

[12] Beginning with week ending Nov. 15, 1972, includes $450 million of reserve deficiencies on which F.R. Banks are allowed to waive penalties for a transition period in connection with bank adaptation to Regulation J as amended, effective Nov. 9, 1972; this amount was reduced to $279 million on Dec. 28, 1972.

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 1972[1]

Type of office	Nature of change	All banks	Commercial banks (incl. stock savings banks and nondeposit trust companies)						Mutual savings banks	
			Total	Member			Nonmember			
				Total	National[1]	State	Insured	Noninsured	Insured	Noninsured
BANKS	**Dec. 31, 1971**	**14,273**	**13,784**	**5,728**	**4,600**	**1,128**	**7,875**	**181**	**326**	**163**
	Changes during 1972:									
	New banks[2]	266	265	66	53	13	162	37	1	....
	Suspensions	-2	-2	....	....	....	-1	-1	....	....
	Ceased banking operations	-1	-1	....	....	....	....	-1	....	....
	Consolidations and absorptions:									
	Banks converted into branches	-109	-106	-44	-32	-12	-59	-3	....	-3
	Other	-12	-10	-5	-4	-1	-5	....	-2	....
	Voluntary liquidations[3]	-2	-2	....	....	....	....	-2	....	....
	Interclass changes:									
	Nonmember to—									
	National	....	....	12	12	....	-12	....	....	....
	State member	....	....	6	....	6	-6	....	....	....
	State member to—									
	National	....	....	....	7	-7	....	....	....	....
	Nonmember	....	....	-36	....	-36	36	....	....	....
	National to—									
	State member	....	....	....	-1	1	....	....	....	....
	Nonmember	....	....	-22	-22	....	22	....	....	....
	Noninsured to insured	....	....	....	....	....	5	-5	....	....
	Net change	140	144	-23	13	-36	142	25	-1	-3
	Dec. 31, 1972	**14,413**	**13,928**	**5,705**	**4,613**	**1,092**	**8,017**	**206**	**325**	**160**
BRANCHES AND ADDITIONAL OFFICES	**Dec. 31, 1971[4]**	**24,083**	**22,888**	**16,902**	**13,102**	**3,800**	**5,946**	**40**	**983**	**212**
	Changes during 1972:									
	De novo	1,684	1,523	946	707	239	570	7	131	30
	Banks converted	110	107	68	60	8	39	....	....	3
	Discontinued[4]	-130	-123	-95	-70	-25	-27	-1	-5	-2
	Sale of branch	-1	-1	-3	-1	-2	2	....	....	....

	Interclass changes:									
	Nonmember to—									
	National	....	....	59	59	....	−59	....	....	....
	State member	....	....	53	....	53	−53	....	....	....
	State member to—									
	National	....	....	....	22	−22	....	....	....	....
	Nonmember	....	....	−111	....	−111	111	....	....	....
	National to—									
	State member	....	....	....	−28	28	....	....	....	....
	Nonmember	....	....	−57	−57	....	57	....	....	....
	Noninsured to insured	....	....	....	....	....	1	−1	....	....
	Facilities reclassified as branches	5	5	3	3	....	2	....	....	....
	Other	18	15	13	13	....	2	....	4	−1
	Net change	1,686	1,526	876	708	168	645	5	130	30
	Dec. 31, 1972 [4]	**25,769**	**24,414**	**17,778**	**13,810**	**3,968**	**6,591**	**45**	**1,113**	**242**
BANKING FACILITIES	**Dec. 31, 1971** [5]	**216**	**216**	**183**	**170**	**13**	**33**	....	....	....
	Changes during 1972:									
	Established	3	3	3	3	....	....	....	....	....
	Discontinued	−3	−3	−3	−2	−1	....	....	....	....
	Facilities reclassified as branches	−5	−5	−3	−3	....	−2	....	....	....
	Other	−3	−3	−4	−4	....	1	....	....	....
	Net change	−8	−8	−7	−6	−1	−1	....	....	....
	Dec. 31, 1972	**208**	**208**	**176**	**164**	**12**	**32**	....	....	....

[1] Includes a national bank (8 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, 1972

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	379	1,775	379	1,775	219	1,193	160	582	......	....
New York	475	3,880	475	3,880	335	3,401	140	479	......	....
Philadelphia	427	1,791	427	1,791	294	1,250	133	541	......	....
Cleveland	778	2,195	778	2,195	463	1,793	315	402	......	....
Richmond	738	3,503	713	3,473	363	2,162	350	1,311	25	30
Atlanta	1,742	1,859	1,693	1,801	575	1,133	1,118	668	49	58
Chicago	2,613	2,589	2,613	2,589	939	1,696	1,674	893	......	....
St. Louis	1,400	1,030	1,345	1,018	430	530	915	488	55	12
Minneapolis	1,378	318	1,378	318	498	163	880	155	......	....
Kansas City	2,105	376	2,105	376	813	225	1,292	151	......	....
Dallas	1,385	290	1,335	274	633	143	702	131	50	16
San Francisco	402	5,244	402	5,244	143	4,312	259	932	......	....
Total	**13,822**	**24,850**	**13,643**	**24,734**	**5,705**	**18,001**	**7,938**	**6,733**	**179**	**116**

20. NUMBER OF PAR AND NONPAR BANKING OFFICES, BY STATE AND OTHER AREA, DECEMBER 31, 1972

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	277	334	277	334	109	244	168	90	......	....
Alaska	10	70	10	70	5	62	5	8	......	....
Arizona	15	374	15	374	4	265	11	109	......	....
Arkansas	252	193	197	181	81	114	116	67	55	12
California	156	3,258	156	3,258	63	2,866	93	392	......	....
Colorado	244	35	244	35	140	22	104	13	......	....
Connecticut	63	498	63	498	27	318	36	180	......	....
Delaware	18	110	18	110	6	27	12	83	......	....
District of Columbia	14	112	14	112	12	104	2	8	......	....
Florida	575	60	575	60	256	13	319	47	......	....
Georgia	437	483	437	483	71	314	366	169	......	....
Hawaii	7	143	7	143	1	10	6	133	......	....
Idaho	24	170	24	170	13	148	11	22	......	....
Illinois	1,150	148	1,150	148	491	95	659	53	......	....
Indiana	407	719	407	719	180	442	227	277	......	....
Iowa	668	344	668	344	150	101	518	243	......	....
Kansas	607	76	607	76	197	40	410	36	......	....
Kentucky	341	394	341	394	92	230	249	164	......	....
Louisiana	238	443	153	369	60	237	93	132	85	74
Maine	43	248	43	248	25	182	18	66	......	....

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	112	595	112	595	46	363	66	232	......	....
Massachusetts	155	813	155	813	95	613	60	200	......	....
Michigan	331	1,330	331	1,330	204	1,089	127	241	......	....
Minnesota	736	20	736	20	225	9	511	11	......	....
Mississippi	181	406	181	406	45	176	136	230	......	....
Missouri	673	132	673	132	170	56	503	76	......	....
Montana	146	12	146	12	96	9	50	3	......	....
Nebraska	441	48	441	48	133	28	308	20	......	....
Nevada	8	93	8	93	5	81	3	12	......	....
New Hampshire	77	78	77	78	49	64	28	14	......	....
New Jersey	210	1,174	210	1,174	152	1,026	58	148	......	....
New Mexico	71	150	71	150	40	95	31	55	......	....
New York	299	2,698	299	2,698	233	2,535	66	[1] 163	......	....
North Carolina	86	1,331	71	1,304	24	677	47	627	15	27
North Dakota	169	73	169	73	47	16	122	57	......	....
Ohio	505	1,448	505	1,448	335	1,218	170	230	......	....
Oklahoma	437	84	437	84	207	57	230	27	......	....
Oregon	45	380	45	380	8	270	37	110	......	....
Pennsylvania	434	1,917	434	1,917	296	1,393	138	524	......	....
Rhode Island	16	185	16	185	5	98	11	87	......	....
South Carolina	94	499	84	496	24	273	60	223	10	3
South Dakota	159	102	159	102	59	72	100	30	......	....
Tennessee	312	595	312	595	85	359	227	236	......	....
Texas	1,237	94	1,223	94	581	29	642	65	14	....
Utah	52	159	52	159	16	114	36	45	......	....
Vermont	40	98	40	98	24	39	16	59	......	....
Virginia	256	961	256	961	150	742	106	219	......	....
Washington	88	609	88	609	29	512	59	97	......	....
West Virginia	203	8	203	8	119	3	84	5	......	....
Wisconsin	609	297	609	297	164	95	445	202	......	....
Wyoming	71	2	71	2	55	1	16	1	......	....
OTHER AREA										
Guam [2]	1	13	1	13	......	8	1	5	......	....
American Samoa [2]	......	1	......	1	......	....	......	1	......	....
Puerto Rico [3]	14	204	14	204	......	19	14	185	......	....
Virgin Islands [3]	8	29	8	29	1	28	7	1	......	....

[1] Includes 16 New York City branches of 3 insured nonmember Puerto Rican banks.

[2] American Samoa and Guam assigned to the San Francisco District for check clearing and collection purposes. All member branches in Guam are branches of California and New York banks.

[3] 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 banks located in California, New York, and Pennsylvania. Certain branches of Canadian banks (2 in Puerto Rico and 5 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 208 banking facilities. Number of banks and branches differs from that in Table 18 because this table includes banks in Puerto Rico and the Virgin Islands but excludes banks and trust companies on which no checks are drawn.

21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1972

CONTENTS

CONTENTS—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—**The Auglaize County Bank,** St. Marys, Ohio,	(Newly organized bank; not in operation)		
to merge with **The Home Banking Company,** St. Marys, Ohio	22	3	3

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-18-72)

The Auglaize County Bank, St. Marys, Ohio, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to merge The Home Banking Company, St. Marys, Ohio, which has deposits of $20.1 million and operates 3 offices.

The proposal is a transaction to facilitate the acquisition of The Home Banking Company by The Central Bancorporation, Inc., Cincinnati, Ohio, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 2—**Mechanics and Farmers' Bank of Albany,** Albany, N.Y.,	39.0	4	6
to merge with **The Tanners National Bank of Catskill,** Catskill, N.Y.	10.0	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-28-72)

The closest offices of the merging banks are separated by a distance of 33 miles. Numerous banking alternatives intervene. The amounts of deposits and loans originated by either bank in the service area of the other is *de minimis.* Thus, the proposed merger would not eliminate substantial existing competition.

Although State branching laws permit intradistrict *de novo* branching, home-office protection precludes a consideration of Mechanics [and Farmers' Bank of Albany, hereinafter Mechanics] as a potential *de novo* entrant into the village of Catskill. Due to the economic nature and growth prospects of Greene County, and the size and relative market position of Catskill Bank [The Tanners National Bank of Catskill, hereinafter Catskill Bank], it would appear that the elimination of Mechanics, or BNY [The Bank of New York Company, Inc., a holding company],

For notes see p. 279.

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.

as a potential entrant into that county would not result in the elimination of substantial potential competition. Moreover, due to the sizes of Catskill Bank and of the only other independent bank in Greene County, there does not appear to be any less anticompetitive merger alternative available to Mechanics.

We conclude that the proposed merger, if approved, would not have any significantly adverse effects on banking competition in Greene County.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-25-72)

Mechanics Bank, a wholly owned subsidiary of The Bank of New York Company, Inc., New York, operates 2 offices in the city of Albany and 2 offices in Albany County, in New York's Fourth Banking District. The holding company has no other banking subsidiary located in the Fourth District, wherein Mechanics Bank ranks as the 16th largest of 35 commercial banks, holding 1.1 per cent of the district's deposits. Tanners National Bank's 2 offices, both in the village of Catskill (population 5,300), are 33 miles from the nearest offices of Mechanics Bank.

Tanners National Bank, in Greene County, is the smaller of 2 commercial banks in Catskill. Four of the 5 competing banks in the county are subsidiaries of multibank holding companies and are the largest banks headquartered in New York's Fourth Banking District.

There is no significant competition existing between proponents, and home-office protection would not permit Mechanics Bank to establish a *de novo* branch in the village of Catskill.

The merger would not have an adverse effect on competition in any relevant area. The transaction would benefit the residents of Catskill by the addition of an alternative, full-service facility.

No. 3—**Citizens Bank of Schoolfield,** Danville, Va.,	(Newly organized bank; not in operation)		
to merge with **Schoolfield Bank & Trust Company,** Danville, Va.	19.0	2	2

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

For notes see p. 279.

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 (2-11-72)

The sole purpose of this proposed merger is to provide the organizational device whereby First Virginia Bankshares Corporation, Arlington, Virginia, a bank holding company, can acquire Schoolfield Bank & Trust Company. The merger will have no effect on competition or banking structure in the Danville area. All other relevant factors also being satisfactory, the Board finds approval of the application to be in the public interest.

No. 4—**Commerce Union Bank,** Nashville, Tenn., *to merge with*	487.0	26	26
Broadway State Bank, Nashville, Tenn.	(Newly organized bank; not in operation)		

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (2-22-72)

Commerce Union Bank, Nashville, which has deposits of $374.6 million and operates 26 offices, proposes to merge Broadway State Bank, Nashville, a nonoperating bank applying concurrently for membership in the Federal Reserve System.

The proposal is a transaction to facilitate the acquisition of Commerce Union Bank by Tennessee Valley Bancorp, Inc., Nashville, Tennessee, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 5—**Union County Trust Company,** Elizabeth, N.J., *to merge with*	254.0	19	25
Keansburg-Middletown National Bank, Middletown, N.J.	80.0	6	

For notes see p. 279.

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 (2-16-72)

All but 2 of Union Trust's offices are located in Union County, at least 25 miles from Middletown. Union Trust's single Monmouth County office, however, is located in Eatontown, 5 miles south of Middletown. Although several other banking offices intervene, there is probably some competition between this office of Union Trust and Middletown Bank.

Middletown Bank is the 5th largest of 12 banks operating in Monmouth County, holding about 6.5 per cent of total county deposits on June 30, 1970. Union Trust's Eatontown office was opened *de novo* in August of 1970. Thus, Union Trust is not now a substantial factor in Monmouth County, and the increase in concentration resulting from the merger would be slight.

Home-office protection provided by New Jersey law bars Union Trust from branching *de novo* in Middletown. Union Trust could compete in Middletown, however, by opening branches on the periphery or possibly through the chartering of a new bank via the holding company device. As noted above, Union Trust has already entered Monmouth County *de novo* through its Eatontown office. Union Trust also has approval to open a 2nd Monmouth County office, in Ocean Township, a few miles south of Eatontown.

There are other banking organizations which could be considered potential entrants into Monmouth County, but in view of Union Trust's demonstrated desire to enter the county *de novo* the merger may eliminate some potential competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-3-72)

Union County Trust Company, located in the Second Banking District of New Jersey, serves primarily the Greater Newark market, where it ranks 6th among 45 banks located there and holds 5 per cent of the market's deposits. Of its 18 branches, 16 are in Union County and 1 each in Somerset and Monmouth Counties. Keansburg-Middletown National Bank serves primarily the northern section of Monmouth County, which encompasses the Township of Middletown—wherein its main office and 4 of its 5 branches are located—as well as Keansburg, where the remaining branch is located. The home-office-protection feature of State law, which prohibits *de novo* branching into Middletown, would not be removed by consummation of the proposed merger.

The relevant market in which to assess the competitive effects is the Asbury Park market, consisting generally of Monmouth County (except for a few communities in the western section), which includes the economically significant seashore communities along a 25-mile sector in

For notes see p. 279.

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 eastern portion of the county. Twelve banks operate 92 offices in this market; the 4 largest hold 78.8 per cent of total deposits. Keansburg-Middletown Bank ranks 5th, with 6.7 per cent of deposits. The only office of Union County Trust in this market area is its Eatontown branch, which holds only a negligible percentage of market deposits. Thus, consummation of the merger would not increase deposit concentration significantly in any area.

Although the closest office of Union County Trust, the Eatontown branch, is only 5 miles from an office of Keansburg-Middletown Bank, their service areas do not overlap, and there is no significant competition between the 2 banks. It is not unlikely that the merger would eliminate some potential competition between the proponent banks; however, it is more likely that the merger will stimulate competition in the market area by increasing Keansburg-Middletown Bank's present ability to compete with the 4 larger banks and with 2 smaller banks that recently have become affiliated with 2 holding companies in the First Banking District, each of which holds approximately $1 billion in deposits. Keansburg-Middletown Bank is now less than half the deposit size of the 4th largest bank in the market.

The financial and managerial resources of the applicant are satisfactory; the same is true of Keansburg-Middletown Bank, except for the needed improvement in its capital position, which would attend consummation of this proposal. Therefore, banking factors lend some support for approval of the proposal. Convenience and needs considerations also are consistent with approval in that they would permit improvement and expansion of banking services now offered by Keansburg-Middletown Bank. In the judgment of the Board, consummation of the proposal would be in the public interest.

No. 6—**The Ashland State Bank of Ashland,** Ashland, Ohio,	(Newly organized bank; not in operation)		
to merge with **The Ashland Bank & Savings Company,** Ashland, Ohio	16.0	2	2

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

For notes see p. 279.

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 (3-23-72)

The sole purpose of this proposed merger is to provide the vehicle whereby First Banc Group of Ohio, Inc., Columbus, Ohio, a bank holding company, can consummate the acquisition of The Ashland Bank & Savings Company as approved by the Board on January 25, 1972. The merger will have no effect on competition or any other of the usual factors considered in merger proposals; therefore, the Board finds approval of the application to be in the public interest.

No. 7—**Powhatan Community Bank,** Powhatan, Va., *to merge with*	(Newly organized bank; not in operation)		
Bank of Powhatan, Powhatan, Va.	35.0	3	3

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-8-72)

The proposed merger is part of a plan through which Powhatan Community Bank would become a subsidiary of Southern Bankshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Southern Bankshares, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-4-72)

Powhatan Community Bank, Powhatan, Virginia, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to merge Bank of Powhatan, Powhatan, Virginia, which has deposits of $30,937,000 and operates 3 offices.

The proposal is a transaction to facilitate the acquisition of Bank of Powhatan by Southern Bankshares, Inc., Richmond, Virginia, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 8—**Savannah Bank & Trust Company of Savannah,** Savannah, Ga. *to acquire the assets and assume the deposit liabilities of*	117.0	10	11
Chatham Savings Bank, Savannah, Ga.	4.0	1	

For notes see p. 279.

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 (2-24-72)

Savannah Bank's main office is located 95 feet from Savings Bank. Six branch offices of Savannah Bank are located within 3½ miles of Savings Bank. Both institutions derive virtually all of their business from Chatham County. Although Savings Bank is a small institution, it has outstanding residential real estate loans of about $3 million, compared to about $7 million of Savannah Bank. Thus, at least in the savings deposit and residential real estate loan markets, the proposed merger would eliminate substantial existing competition.

The Chatham County savings market is highly concentrated; the top firms already hold about 86 per cent of total county savings deposits. Savannah Bank ranks 3rd among institutions which accept such deposits, holding about 18.5 per cent of such deposits. Savings Bank holds about 1.3 per cent of such deposits. Thus, the proposed merger would substantially increase the already high concentration in this market.

Finally, the proposed merger would eliminate one of the very few sources of potential deconcentration in the Chatham County commercial banking market. Georgia law permits a bank to branch only in the county where its home office is located or into a county where a previously "grandfathered" branch is located. Furthermore, bank holding companies are restricted to acquiring no more than 5 per cent of the voting shares of any bank. Therefore, any potential deconcentration in the Chatham County banking market must, for all practical purposes, come from existing banks in the county.

The proposed merger could eliminate existing competition for savings deposits and real estate loans, increase the already high concentration in those markets, and entrench Savannah Bank's leading position in those markets. It would also eliminate Savings Bank as a potential entrant into full commerical banking in Savannah and Chatham County. Since there are an extremely small number of potential deconcentrative forces in Chatham County, and since the branching and holding company laws as a practical matter prevent other banking organizations from entering the county, Savings Bank takes on a competitive importance out of proportion to its absolute size. Moreover, its elimination by acquisition by one of the dominant banking organizations in the market has particularly serious competitive consequences. We conclude that, despite the small size of Savings Bank, the proposed merger would clearly have an adverse effect on both existing and potential competition in Savannah and Chatham County.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-6-72)

Savannah Bank, the 7th largest banking organization in Georgia with 1.3 per cent of total commercial bank deposits in the State, operates 10 banking offices, all in Chatham County (population 187,800). Chatham Bank, a small savings institution prohibited from accepting demand

For notes see p. 279.

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.

deposits under State statutes, operates a single office 95 feet from the main office of Savannah Bank. In Chatham County Savannah Bank is the 2nd largest commercial banking organization in the market. With respect to time and savings deposits held by all financial institutions in Chatham County, Savannah Bank and Chatham Bank hold 15.4 and 1.2 per cent of such deposits, and following consummation of the proposed transaction, Savannah Bank would continue to rank 3rd, with 16.6 per cent of the market total of time and savings deposits. The transaction would result in the elimination of some direct competition, and the effect on competition would be adverse.

Chatham Bank, over the past 5 years, has been experiencing a decline in deposits, and its net current earnings have been lower than the average for Georgia banks of similar size. Furthermore, within the past 2 years Chatham Bank's president and vice president have died; now that financial institution's only active officer is approaching retirement age. Chatham Bank does not have a stock-option plan, profit-sharing plan, or retirement system. In view of the above, Chatham Bank does not appear capable of attracting the type of individual who would be able to stimulate its growth. The likelihood of Chatham Bank converting to a full-service commercial bank as other savings banks have done is remote as the individuals who own control of this bank live over 100 miles from Savannah, and the record indicates that they are not interested in such a conversion. Thus, the potential for substantial increased competition developing between Savannah Bank and Chatham Bank is not likely. From the record, it appears that Savannah Bank is the only financial institution that has shown any interest in acquiring Chatham Bank, and Savannah Bank's interest has arisen previously because of the latter institution's ownership of real estate near Savannah Bank's main office, which it desires for future expansion purposes.

In the light of Chatham Bank's serious management succession problem, there is no assurance that capable management can be attracted to the Bank in the absence of approval of the proposed transaction. Consequently, the financial and managerial factors lend substantial weight for approval of this application, and the convenience and needs aspects outweigh the adverse competitive consequences of this proposed merger.

No. 9—**Beverly Hills Fidelity Bank,** Beverly Hills, Calif., *to acquire the assets and assume the deposit liabilities of*	(Newly organized bank; not in operation)		
Fidelity Bank, Beverly Hills, Calif.	111.0	3	3

For notes see p. 279.

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

No report received. Requests for reports on the competitive factors were dispensed with as authorized by the Bank Merger Act to permit the Board [of Governors] to act immediately in order to safeguard depositors of Fidelity Bank.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-19-72)

On the basis of the information before the Board, including communications from the State Banking Department of the State of California, the Board finds that an emergency situation exists so as to require that it act immediately pursuant to the provisions of the Bank Merger Act in order to safeguard depositors of Fidelity Bank.

Such anticompetitive effects as will be attributable to consummation of the transaction will be clearly outweighed in the public interest by considerations relating to and involved in the emergency situation found to exist. From the record in the case, it is the Board's judgment that any disposition of the application other than approval would be inconsistent with the best interests of the depositors of Fidelity Bank, and the Board concludes that the proposed transaction should be approved on a basis that would not delay consummation of the proposal.

No. 10—**The Citizens Central Bank,** Arcade, N.Y.,	48.0	6	
to merge with			7
Citizens State Bank, Lyndonville, N.Y.	6.0	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-17-72)

Citizens' [Citizens Central Bank, hereinafter Citizens] nearest office to Citizens State Bank is its Elba branch, approximately 30 road miles away. A branch of another subsidiary of Charter New York Corp., the Central Trust Company, Rochester, is located approximately 44 miles from Citizens State Bank, in the Eighth Banking District. The merging banks draw less than 1 per cent of their business from each other's service areas, and other subsidiaries of Charter do minimal business in Citizens State Bank's area. Therefore, no significant amount of existing competition would be eliminated by the proposed merger.

Since New York law permits intradistrict branching subject to home-office protection, Citizens could be permitted to establish new branches in Orleans County, but not in Lyndonville. The much larger city of Medina (population 6,000), not closed to branching under the home-office-protection law, is located only 7 miles south of Lyndonville, and

For notes see p. 279.

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.

therefore could be considered a likely location for *de novo* entry by Citizens. Nevertheless, in view of Citizens State Bank's size and small share (about 9 per cent) of Orleans County deposits, the nature of its service area, and the existence of other potential entrants, we do not believe that the proposed merger would have a significantly adverse effect on potential competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-19-72)

Citizens Central Bank (hereinafter Citizens Central), a subsidiary of Charter New York Corporation, New York City, operates 6 offices in New York State's Ninth Banking District, wherein it holds 1.2 per cent of the district's commercial bank deposits as the 11th largest of the district's 31 banks. State Bank operates its only office in Lyndonville and is the only bank headquartered in Orleans County, the relevant market, where it controls approximately 9 per cent of commercial bank deposits. A large New York banking organization operates 4 banking offices in the market and controls the remaining 91 per cent of market deposits. State Bank ranks as the 29th largest bank in the Ninth Banking District, with 0.2 per cent of the district's total commercial bank deposits.

The nearest offices of the merging banks are approximately 30 miles apart and their service areas do not overlap. Consummation of the proposal would not significantly increase the concentration of banking deposits in any relevant area. No meaningful existing competition would be eliminated by the proposal between the proposed merging banks nor between any of the banking offices of Charter New York Corporation and State Bank.

Citizens Central is prohibited from *de novo* branching into Lyndonville by home-office protection afforded by New York State laws, and, absent this, the growth potentials of the Lyndonville area would limit somewhat *de novo* entry. State Bank, as a small unit bank, is not likely to expand into the area served by Citizens Bank by *de novo* branching. Consequently, it appears unlikely that consummation of the proposed merger would foreclose any significant amount of potential competition between Citizens Central, State Bank, or between any of the banking offices of Charter New York Corporation. It is concluded, therefore, that consummation of the proposed acquisition would not have an adverse effect on competition in any relevant market; rather, the replacement of the small unit-banking office by the subsidiary of a large statewide holding company would likely increase competition with the offices of the large New York State banking organization.

The financial and managerial resources of Citizens Central and State Bank are satisfactory and the prospects for the resulting bank would be favorable. Consummation of the proposed merger would improve the

For notes see p. 279.

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.

present banking services available to customers of State Bank by increased lending capabilities and improving the banking services to include the addition of credit-card services, automatic saving plans, and personal and corporate trust services.

No. 11—**St. Paul Trust Company,** Baltimore, Md.,	(Newly organized bank; not in operation)		
to merge with **Union Trust Company of Maryland,** Baltimore, Md.	598.0	62	62

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-13-72)

The proposed merger is part of a plan through which Union Trust Company of Maryland would become a subsidiary of Union Trust Bancorp, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Union Trust Bancorp, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (4-25-72)

St. Paul Trust Company, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to merge Union Trust Company of Maryland.

The proposal is a transaction to facilitate the acquisition of Union Trust Company of Maryland by Union Trust Bancorp, Baltimore, Maryland, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 12—**Peoples Mid-Illinois Bank,** Bloomington, Ill.,	(Newly organized bank; not in operation)		
to merge with **Peoples Bank of Bloomington,** Bloomington, Ill.	64.0	1	1

For notes see p. 279.

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 (4-26-72)

The proposed merger is part of a plan through which Peoples Bank of Bloomington would become a subsidiary of Peoples Mid-Illinois Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Peoples Mid-Illinois Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (5-8-72)

Peoples Mid-Illinois Bank, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to merge Peoples Bank of Bloomington.

The proposal is a transaction to facilitate the acquisition of Peoples Bank of Bloomington by Peoples Mid-Illinois Corporation, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 13—**Central Trust Company Rochester, N.Y.,** Rochester, N.Y., *to merge with*	283.0	14	16
The First National Bank of Painted Post, Painted Post, N.Y.	10.0	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-10-72)

The closest office of Central Trust to Painted Post is located at Prattsburgh, about 35 miles north. The application indicates that neither bank draws appreciable banking business from the service area of the other. Other affiliates of Charter New York Corporation also derive relatively small business from the Painted Post area. It does not appear that the proposed merger would eliminate significant existing competition.

Under New York law, Central Trust could be permitted to establish *de novo* branches in or nearer to the service area of Painted Post Bank [The First National Bank of Painted Post, hereinafter Painted Post Bank]. However, its opportunities to do so are limited by home-office protection. A number of other large holding companies are also potential entrants into this area.

For notes see p. 279.

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.

Central Trust is the 4th largest bank in the Eighth Banking District, with approximately 8.5 per cent of its total commercial bank deposits. Painted Post Bank is the smallest of 4 commercial banks in its area, with about 12 per cent of commercial bank deposits. The area's 2 leading banks are affiliates of large bank holding companies. Painted Post Bank holds about 5.2 per cent of total Steuben County commercial bank deposits, while Central Trust's Prattsburgh office holds about 2.4 per cent.

Although the proposed merger would eliminate Painted Post Bank as an entry vehicle for a bank holding company not already operating in the Eighth Banking District, we do not believe that the proposed merger would have a significantly adverse effect on potential competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (5-22-72)

Central Trust, a subsidiary of Charter New York Corporation, New York City, operates 14 offices in the State's Eighth Banking District—13 in Monroe County and 1 in the northern portion of Steuben County. The First National Bank of Painted Post (hereinafter Painted Post Bank) has 2 offices in the southeastern portion of Steuben County. The nearest offices of proponents are approximately 35 miles apart, and no significant competition exists between the subject banks. Further, no significant competition exists between Painted Post Bank and any of Charter's banking subsidiaries. It appears no substantial potential competition would be eliminated because of the limited economic prospects for the area served by Painted Post Bank. As a result of the merger the customers of Painted Post Bank would be provided with expanded loan and deposit services, trust department facilities, and automated banking services. The convenience and needs factor and the banking factors are consistent with approval.

No. 14—**The Citizens Commercial Bank,** Celina, Ohio,	28.0	2	3
to merge with			
The Peoples Bank Company, Fort Recovery, Ohio	8.0	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (6-30-72)

The 2 banks are located about 12 [20] miles apart in Mercer County. Although Celina, home of Citizens Bank, is the county seat and trading center for county residents, the banks draw relatively little banking busi-

For notes see p. 279.

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.

ness from each other's hometown. The proposed merger would appear to eliminate only a limited amount of existing competition.

The 2 merging banks are available alternatives for a localized area in Mercer County.

Within Mercer County as a whole, which may overstate the relevant market, Citizens Bank is the 2nd largest and Peoples Bank is the smallest of the 7 banks with offices in the county. The merger will increase Citizens Bank's share of deposits from 25 per cent to 31 per cent. The share of the 2 largest banks in the county will increase from 51 per cent to 58 per cent. If the pending proposal of the county's largest bank (also located in Celina) to acquire the 5th largest bank in the county is approved, the county will be left with only 5 banking organizations, the largest 2 of which will account for 66 per cent of county deposits.

In addition to the elimination of one of only a few alternative sources of banking services for a significant number of customers in Mercer County, the proposed merger would increase the degree of concentration of banking resources in this localized market to a level that can be expected to dampen the vigor of actual and potential banking competition in that market.

We conclude that the proposed merger would have an adverse effect upon competition, which could be compounded by consummation of the other pending Mercer County merger proposal.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (7-28-72)

The two offices of The Citizens Commercial Bank (hereinafter Celina Bank) and the single office of The Peoples Bank Company (hereinafter Fort Recovery Bank) are in Mercer County (population 35,600), where Celina Bank ranks as the 2nd largest of 7 banks, with 25 per cent of the aggregate deposits. The nearest offices of the 2 banks are 20 miles apart with no main road connecting the communities where such offices are located. Further, 2 banks are situated in the intervening area and another bank is located in Fort Recovery. No meaningful competition exists between proponents, and the Fort Recovery area is not attractive for *de novo* entry since there are presently 2 banking offices serving this village of 1,348 persons.

The proposed merger would have only a slightly adverse effect on existing or potential competition and the increase in concentration of banking resources in Mercer County would not significantly affect competition in the relevant area. It would strengthen the Fort Recovery office and would solve its present management succession problems. The transaction would make possible expanded loans for Fort Recovery Bank's customers, as well as other services.

For notes see p. 279.

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. 15—**OK Bank**, Grand Rapids, Mich., *to consolidate with*	(Newly organized bank; not in operation)		
Old Kent Bank and Trust Company, Grand Rapids, Mich.	759.0	43	43

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-14-72)

The proposed merger is part of a plan through which Old Kent Bank and Trust Company would become a subsidiary of Old Kent Financial Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Old Kent Financial Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (8-31-72)

OK Bank, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to merge Old Kent Bank and Trust Company.

The proposal is a transaction to facilitate the acquisition of Old Kent Bank and Trust Company by Old Kent Financial Corporation, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 16—**Southridge Bank of Greendale**, Greendale, Wis., *to acquire the assets and assume the deposit liabilities of*	(Newly organized bank; not in operation)		
Southridge National Bank of Greendale, Greendale, Wis.	10.0	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10-18-72)

Southridge Bank of Greendale, Greendale, Wisconsin, a nonoperating bank applying concurrently for membership in the Federal Reserve Sys-

For notes see p. 279.

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.

tem, proposes to acquire the assets and assume the liabilities of Southridge National Bank of Greendale, Greendale, Wisconsin.

The proposal is a transaction to facilitate the acquisition of Southridge National Bank of Greendale by Ridge Bancorporation of Wisconsin, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 17—**Bank of Idaho,** Boise, Idaho,	217.0	25	
to merge with			28
Cassia National Bank, Burley, Idaho	18.0	3	

SUMMARY REPORT BY THE ATTORNEY GENERAL (9-20-72)

The nearest office of Bank of Idaho to a Cassia National office is 38 miles away. It appears that the proposed merger would not eliminate any significant existing competition.

Cassia National is the 2nd largest bank in Burley, with about 37 per cent of the total deposits in the Burley area.

Banks in Idaho are permitted to branch statewide. Bank of Idaho is the largest bank in Idaho which does not operate an office in Burley. The 2 largest banks in the State have entered Burley *de novo* in the last 6 years. Thus, the proposed merger would eliminate Bank of Idaho as the most significant potential entrant into the Burley area. However, the nature of the economy of the Burley area is a limiting factor on the prospects of extensive *de novo* branching in the foreseeable future.

Banking in Idaho is highly concentrated. As of the end of 1971, the 4 largest banks in the State held approximately 85 per cent of its commercial bank deposits. Bank of Idaho held about 12 per cent of these deposits, while Cassia National held more than 1 per cent. There are only 24 banks in the entire State, and economic growth in Idaho in recent years has not been sufficient to induce new entry into the banking business.

In these circumstances, acquisitions of existing Idaho banks by the State's present leaders prevent the development of other banks of a size sufficient to enable them to competitively challenge these leaders on a statewide scale and bring about some deconcentration of banking in Idaho. Such acquisitions could also result in the same few banking institutions confronting each other in all of the State's significant local bank-

For notes see p. 279.

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 markets, with little if any independent competition. Therefore, we conclude that the proposed merger of the State's 10th largest bank by one of its existing banking leaders may have an adverse competitive effect.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-7-72)

Bank of Idaho (hereinafter Boise Bank), the sole Idaho banking subsidiary of Western Bancorporation, Los Angeles, is the 3rd largest bank in Idaho, with 12 per cent of the deposits held by all banks situated therein. It operates 25 banking offices throughout Idaho. Cassia Bank maintains 3 offices, 2 in Burley (population 8,300) and 1 in Lava Hot Springs (population 516). A 4th office, to be located in Heyburn, 4 miles northeast of Burley, has been approved but is not yet open. Proponents' nearest offices are about 39 miles apart, and there is no competition existing between them. Although Idaho permits statewide branching, it seems unlikely Boise Bank would be permitted to establish a *de novo* branch in Burley in the foreseeable future because within the last 2 years the Board has denied Boise Bank's request to establish a *de novo* branch therein. It is concluded that the proposed transaction would not have an adverse effect on competition in any relevant area.

Boise Bank plans to expand considerably real estate loans in the Burley area, a service that Cassia Bank has not provided to a significant degree. The banking factors and the convenience and needs factor are consistent with approval.

No. 18—**Traverse City Bank and Trust Company,** Traverse City, Mich.,	(Newly organized bank; not in operation)		
to consolidate with **Traverse City State Bank,** Traverse City, Mich.	77.0	9	9

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-2-72)

The proposed merger is part of a plan through which Traverse City State Bank would become a subsidiary of Pacesetter Financial Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Pacesetter Financial Corporation, it would have no effect on competition.

For notes see p. 279.

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 (11-30-72)

Traverse City Bank and Trust Company, Traverse City, Michigan, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to consolidate with Traverse City State Bank, Traverse City, Michigan, which has deposits of $67,693,000 and operates 9 offices.

The proposal is a transaction to facilitate the acquisition of Traverse City State Bank by Pacesetter Financial Corporation, Grand Haven, Michigan, a proposed bank holding company.

The proposed consolidation would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

No. 19—**Jefferson Street State Bank,** Houston, Tex.,	(Newly organized bank; not in operation)		
to merge with **Houston-Citizens Bank & Trust Company,** Houston, Tex.	245.0	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (8-22-72)

The proposed merger is part of a plan through which Houston-Citizens Bank & Trust Company would become a subsidiary of First International Bancshares, Inc., a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by First International Bancshares, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-30-72)

Jefferson Street State Bank, Houston, Texas, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to merge Houston-Citizens Bank & Trust Company, Houston, Texas, which has deposits of $195 million and operates 1 office.

The proposal is a transaction to facilitate the acquisition of Houston-Citizens Bank & Trust Company by First International Bancshares, Inc., Dallas, Texas, a bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

For notes see p. 279.

Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices: In operation	Banking offices: To be operated
No. 20—**Grand Haven State Bank,** Grand Haven, Mich., *to consolidate with*	(Newly organized bank; not in operation)		
Security First Bank & Trust Co., Grand Haven, Mich.	57.0	6	6

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-2-72)

The proposed merger is part of a plan through which Security First Bank & Trust Co. would become a subsidiary of Pacesetter Financial Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Pacesetter Financial Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-30-72)

Grand Haven State Bank, Grand Haven, Michigan, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to consolidate with Security First Bank & Trust Co., Grand Haven, Michigan, which has deposits of $50,379,000 and operates 6 offices.

The proposal is a transaction to facilitate the acquisition of Security First Bank & Trust Co. by Pacesetter Financial Corporation, Grand Haven, Michigan, a proposed bank holding company.

The proposed consolidation would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

Name of bank, and type of transaction	Resources (in millions of dollars)	Banking offices: In operation	Banking offices: To be operated
No. 21—**BOL State Bank,** Lansing, Mich., *to consolidate with*	(Newly organized bank; not in operation)		
Bank of Lansing, Lansing, Mich.	143.0	7	7

SUMMARY REPORT BY THE ATTORNEY GENERAL (12-22-72)

The proposed merger is part of a plan through which BOL State Bank would become a subsidiary of Northern States Financial Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Northern States Financial Corporation, it would have no effect on competition.

For notes see p. 279.

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 (12-22-72)

BOL State Bank, Lansing, Michigan, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to consolidate with Bank of Lansing, Lansing, Michigan, which has deposits of $129,959,000 and operates 7 offices.

The proposal is a transaction to facilitate the direct acquisition of the voting shares of Bank of Lansing by Northern States Financial Corporation, Detroit, Michigan, and the indirect acquisition of Bank of Lansing's shares by Twin Gates Corporation, Wilmington, Delaware, because of its ownership of 22.48 per cent of the voting shares of Northern States Financial Corporation.

The proposed consolidation would, in itself, have no adverse effect on banking competition, on the convenience and needs of the area, or on banking factors.

No. 22—**The Sandusky Security Bank,** Sandusky, Ohio,	(Newly organized bank; not in operation)		
to merge with **The Western Security Bank,** Sandusky, Ohio	48.0	3	3

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-17-72)

The proposed merger is part of a plan through which The Western Security Bank would become a subsidiary of BancOhio Corporation, a bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by BancOhio Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (12-27-72)

The Sandusky Security Bank, Sandusky, Ohio, a nonoperating bank applying concurrently for membership in the Federal Reserve System, proposes to merge The Western Security Bank, Sandusky, Ohio, which has deposits of $44.5 million and operates 3 offices.

The proposal is a transaction to facilitate the acquisition of The Western Security Bank by BancOhio Corporation, Columbus, Ohio, a bank holding company.

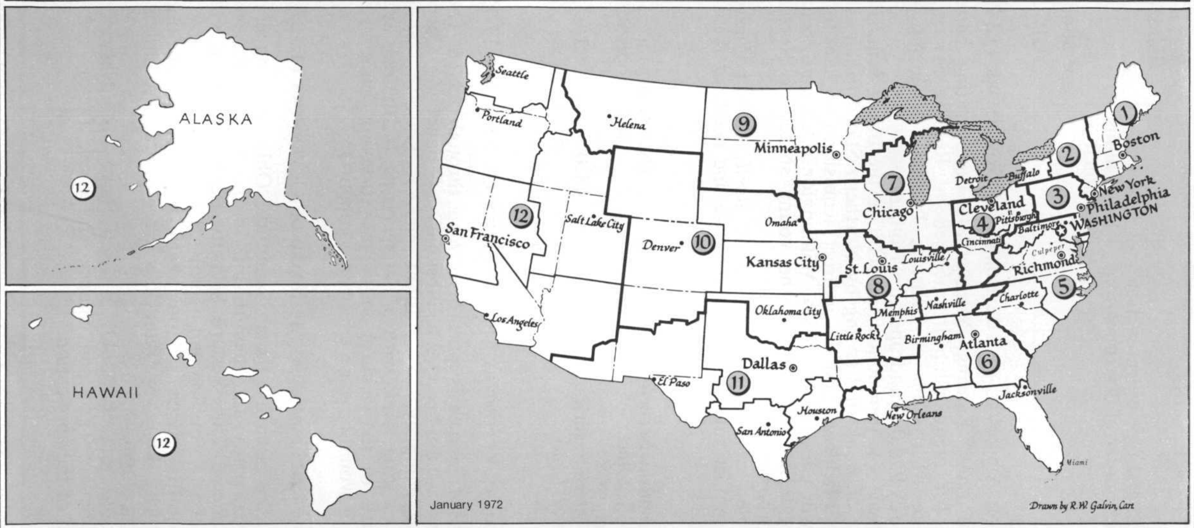
The proposed merger would, in itself, have no adverse competitive effects. The banking and convenience and needs factors are consistent with approval of the application.

[1] During 1972 the Board disapproved 1 merger application. However under Section 18(c) of the Federal Deposit Insurance Act, only those transactions approved by the Board must be described in its ANNUAL REPORT to Congress.

[2] Each transaction was proposed to be effected under the charter of the first-named bank.

THE FEDERAL RESERVE SYSTEM

BOUNDARIES OF FEDERAL RESERVE DISTRICTS AND THEIR BRANCH TERRITORIES



Legend

Boundaries of Federal Reserve Districts

Boundaries of Federal Reserve Branch Territories

Board of Governors of the Federal Reserve System

Federal Reserve Bank Cities

Federal Reserve Branch Cities

Federal Reserve Directories and Meetings

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(December 31, 1972)

	Term expires
ARTHUR F. BURNS of New York, *Chairman*	January 31, 1984
J. L. ROBERTSON of Nebraska, *Vice Chairman*	January 31, 1978
GEORGE W. MITCHELL of Illinois	January 31, 1976
J. DEWEY DAANE of Virginia	January 31, 1974
ANDREW F. BRIMMER of Pennsylvania	January 31, 1980
JOHN E. SHEEHAN of Kentucky	January 31, 1982
JEFFREY M. BUCHER of California	January 31, 1986

ROBERT C. HOLLAND, *Executive Director*
J. CHARLES PARTEE, *Adviser to the Board*
*ROBERT SOLOMON, *Adviser to the Board*
HOWARD H. HACKLEY, *Assistant to the Board*
ROBERT L. CARDON, *Assistant to the Board*
EDWIN J. JOHNSON, *Assistant to the Board*
FRANK O'BRIEN, JR., *Special Assistant to the Board*
JOSEPH R. COYNE, *Special Assistant to the Board*
JOHN S. RIPPEY, *Special Assistant to the Board*

OFFICE OF EXECUTIVE DIRECTOR

ROBERT C. HOLLAND, *Executive Director*
DAVID C. MELNICOFF, *Deputy Executive Director*
GORDON B. GRIMWOOD, *Assistant Director and Program Director for Contingency Planning*
WILLIAM W. LAYTON, *Director of Equal Employment Opportunity*
BRENTON C. LEAVITT, *Program Director for Banking Structure*

OFFICE OF THE SECRETARY

TYNAN SMITH, *Secretary*
MURRAY ALTMANN, *Assistant Secretary*
NORMAND R. V. BERNARD, *Assistant Secretary*
ARTHUR L. BROIDA, *Assistant Secretary*
ELIZABETH L. CARMICHAEL, *Assistant Secretary*
MICHAEL A. GREENSPAN, *Assistant Secretary*

LEGAL DIVISION

THOMAS J. O'CONNELL, *General Counsel*
PAUL GARDNER, JR., *Assistant General Counsel*
PAULINE B. HELLER, *Assistant General Counsel*
ROBERT S. PLOTKIN, *Adviser*

DIVISION OF RESEARCH AND STATISTICS

J. CHARLES PARTEE, *Director*
STEPHEN H. AXILROD, *Associate Director*
SAMUEL B. CHASE, *Associate Director*
LYLE E. GRAMLEY, *Associate Director*
PETER M. KEIR, *Adviser*
JAMES L. PIERCE, *Adviser*
STANLEY J. SIGEL, *Adviser*
MURRAY S. WERNICK, *Adviser*
KENNETH B. WILLIAMS, *Adviser*
JAMES B. ECKERT, *Associate Adviser*
JOSEPH S. ZEISEL, *Associate Adviser*
EDWARD C. ETTIN, *Assistant Adviser*
ELEANOR J. STOCKWELL, *Assistant Adviser*
STEPHEN P. TAYLOR, *Assistant Adviser*
LOUIS WEINER, *Assistant Adviser*
LEVON H. GARABEDIAN, *Assistant Director*

*On leave of absence.

DIVISION OF INTERNATIONAL FINANCE

RALPH C. BRYANT, *Director*
JOHN E. REYNOLDS, *Associate Director*
A. B. HERSEY, *Senior Adviser*
ROBERT F. GEMMILL, *Adviser*
REED J. IRVINE, *Adviser*
SAMUEL I. KATZ, *Adviser*
BERNARD NORWOOD, *Adviser*
SAMUEL PIZER, *Adviser*
RALPH C. WOOD, *Adviser*
GEORGE B. HENRY, *Assistant Adviser*
HELEN B. JUNZ, *Assistant Adviser*

DIVISION OF FEDERAL RESERVE BANK OPERATIONS

JAMES A. MCINTOSH, *Director*
JOHN N. KILEY, JR., *Associate Director*
WALTER A. ALTHAUSEN, *Assistant Director*
DONALD G. BARNES, *Assistant Director*
HARRY A. GUINTER, *Assistant Director*
P. D. RING, *Assistant Director*
JAMES L. VINING, *Assistant Director*
CHARLES C. WALCUTT, *Assistant Director*
E. MAURICE MCWHIRTER, *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*
JOHN P. FLAHERTY, *Assistant Director*
JANET O. HART, *Assistant Director*
JOHN N. LYON, *Assistant Director*
JOHN T. MCCLINTOCK, *Assistant Director*
THOMAS A. SIDMAN, *Assistant Director*
CHARLES L. MARINACCIO, *Adviser*

DIVISION OF PERSONNEL ADMINISTRATION

RONALD G. BURKE, *Director*
JOHN J. HART, *Assistant Director*

DIVISION OF ADMINISTRATIVE SERVICES

JOSEPH E. KELLEHER, *Director*
WALTER W. KREIMANN, *Deputy Director*
DONALD E. ANDERSON, *Assistant Director*
JOHN D. SMITH, *Assistant Director*

OFFICE OF THE CONTROLLER

JOHN KAKALEC, *Controller*

DIVISION OF DATA PROCESSING

JEROLD E. SLOCUM, *Director*
CHARLES L. HAMPTON, *Associate Director*
GLENN L. CUMMINS, *Assistant Director*
BENJAMIN R. W. KNOWLES, JR., *Assistant Director*
HENRY W. MEETZE, *Assistant Director*
EDWARD K. O'CONNOR, *Assistant Director*
RICHARD S. WATT, *Assistant Director*

FEDERAL OPEN MARKET COMMITTEE

(December 31, 1972)

MEMBERS

ARTHUR F. BURNS, *Chairman* (Board of Governors)
ALFRED HAYES, *Vice Chairman* (Elected by Federal Reserve Bank of New York)
ANDREW F. BRIMMER (Board of Governors)
JEFFREY M. BUCHER (Board of Governors)
PHILIP E. COLDWELL (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
J. DEWEY DAANE (Board of Governors)
DAVID P. EASTBURN (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)
BRUCE K. MACLAURY (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
GEORGE W. MITCHELL (Board of Governors)
J. L. ROBERTSON (Board of Governors)
JOHN E. SHEEHAN (Board of Governors)
WILLIS J. WINN (Elected by Federal Reserve Banks of Cleveland and Chicago)

OFFICERS

ROBERT C. HOLLAND, *Secretary*

ARTHUR L. BROIDA, *Deputy Secretary*
MURRAY ALTMANN, *Assistant Secretary*
NORMAND R. V. BERNARD, *Assistant Secretary*
HOWARD H. HACKLEY, *General Counsel*
THOMAS J. O'CONNELL, *Assistant General Counsel*
J. CHARLES PARTEE, *Senior Economist*
STEPHEN H. AXILROD, *Economist* (Domestic Finance)
*ROBERT SOLOMON, *Economist* (International Finance)

EDWARD G. BOEHNE, *Associate Economist*
RALPH C. BRYANT, *Associate Economist*
LYLE E. GRAMLEY, *Associate Economist*
RALPH T. GREEN, *Associate Economist*
A. B. HERSEY, *Associate Economist*
WILLIAM J. HOCTER, *Associate Economist*
JOHN H. KAREKEN, *Associate Economist*
ROBERT G. LINK, *Associate Economist*

ALAN R. HOLMES, *Manager, System Open Market Account*
CHARLES A. COOMBS, *Special Manager, System Open Market Account*

During 1972 most meetings of the Federal Open Market Committee were at intervals of four weeks, as indicated in the Record of Policy Actions taken by the Committee (see pp. 105–88 of this Report).

*On leave of absence.

FEDERAL ADVISORY COUNCIL

(December 31, 1972)

MEMBERS

District No. 1—James F. English, Jr., Chairman of the Board, Connecticut Bank and Trust Company, Hartford, Conn.

District No. 2—David Rockefeller, Chairman of the Board, The Chase Manhattan Bank (National Association), New York, N.Y.

District No. 3—G. Morris Dorrance, Jr., Chairman of the Board and President, The Philadelphia National Bank, Ardmore, Pa.

District No. 4—John S. Fangboner, Chairman of the Board and Chief Executive Officer, The National City Bank of Cleveland, Cleveland, Ohio

District No. 5—Joseph W. Barr, President, American Security and Trust Company, Washington, D.C.

District No. 6—Harry Hood Bassett, Chairman of the Board, The First National Bank of Miami, Miami, Fla.

District No. 7—Gaylord Freeman, Chairman of the Board, The First National Bank of Chicago, Chicago, Ill.

District No. 8—David H. Morey, Chairman of the Board and Chief Executive Officer, The Boatmen's National Bank of St. Louis, St. Louis, Mo.

District No. 9—Chester C. Lind, President, First American National Bank of Duluth, Duluth, Minn.

District No. 10—Morris F. Miller, Chairman of the Board and Chief Executive Officer, The Omaha National Bank, Omaha, Nebr.

District No. 11—Lewis H. Bond, Chairman of the Board and Chief Executive Officer, The Fort Worth National Bank, Fort Worth, Tex.

District No. 12—A. W. Clausen, President and Chief Executive Officer, Bank of America National Trust and Savings Association, San Francisco, Calif.

OFFICERS

A. W. CLAUSEN, *President* G. MORRIS DORRANCE, JR., *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Assistant Secretary*

EXECUTIVE COMMITTEE

A. W. CLAUSEN, *ex officio* G. MORRIS DORRANCE, JR., *ex officio*

JOHN S. FANGBONER HARRY HOOD BASSETT

GAYLORD FREEMAN

Meetings of the Federal Advisory Council were held on February 3–4; May 4–5; September 14–15; and November 2–3, 1972. The Board of Governors met with the Council on February 4, May 5, September 15, and November 3. The Council is required by law to meet in Washington at least four times each year and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

FEDERAL RESERVE BANKS AND BRANCHES

(December 31, 1972)

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston	James S. Duesenberry	Louis W. Cabot
New York	Roswell L. Gilpatric	Ellison L. Hazard
Philadelphia	Bayard L. England	John R. Coleman
Cleveland	Albert G. Clay	J. Ward Keener
Richmond	Robert W. Lawson, Jr.	Stuart Shumate
Atlanta	John C. Wilson	H. G. Pattillo
Chicago	Emerson G. Higdon	William H. Franklin
St. Louis	Frederic M. Peirce	Sam Cooper
Minneapolis	David M. Lilly	Bruce B. Dayton
Kansas City	Robert W. Wagstaff	Willard D. Hosford, Jr.
Dallas	Chas. F. Jones	Philip G. Hoffman
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 November 30 and December 1, 1972.

Dr. Wilson, Chairman of the Federal Reserve Bank of San Francisco, who was elected Chairman of the Conference and of its Executive Committee in December 1971, served in that capacity until the close of the 1972 meeting. Mr. Lilly, Chairman of the Federal Reserve Bank of Minneapolis, and Mr. Wagstaff, Chairman of the Federal Reserve Bank of Kansas City, served with Dr. Wilson as members of the Executive Committee; Mr. Lilly also served as Vice Chairman of the Conference.

On December 1, 1972, Mr. Lilly was elected Chairman of the Conference and of its Executive Committee to serve for the succeeding year; Mr. Wagstaff was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. Wilson, Chairman of the Federal Reserve Bank of Atlanta, 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.

District 1—BOSTON

DIRECTORS		*Term expires Dec. 31*
Class A:		
William M. Honey	President, The Martha's Vineyard National Bank, Vineyard Haven, Mass.	1972
Ralph A. McIninch	President, Merchants National Bank of Manchester, N.H.	1973
Mark C. Wheeler	President, New England Merchants National Bank, Boston, Mass.	1974
Class B:		
F. Ray Keyser, Jr.	Vice President, Vermont Marble Company, Proctor, Vt.	1972
G. William Miller	President, Textron, Providence, R.I.	1973
W. Gordon Robertson	General Trustee, Bangor, Maine	1974
Class C:		
Louis W. Cabot	Chairman of the Board, Cabot Corporation, Boston, Mass.	1972
John M. Fox	President and Chief Executive Officer, H. P. Hood & Sons, Charlestown, Mass.	1973
James S. Duesenberry	Professor of Economics, Harvard University, Cambridge, Mass.	1974

DIRECTORS—*Continued* **District 2—NEW YORK** *Term expires Dec. 31*

Class A:		
Arthur S. Hamlin	President, The Canandaigua National Bank and Trust Company, Canandaigua, N.Y.	1972
William S. Renchard	Chairman of the Board, Chemical Bank, New York, N.Y.	1973
Norman Brassler	Chairman of the Board and Chief Executive Officer, New Jersey Bank, N.A., Passaic, N.J.	1974
Class B:		
Maurice R. Forman	Chairman of the Board, B. Forman Co., Rochester, N.Y.	1972
Maurice F. Granville	Chairman of the Board, Texaco, Inc., New York, N.Y.	1973
Frank R. Milliken	President, Kennecott Copper Corporation, New York, N.Y.	1974
Class C:		
Ellison L. Hazard	Chairman of the Executive Committee, Continental Can Company, Inc., New York, N.Y.	1972
Alan J. Pifer	President, Carnegie Corporation of New York, N.Y.	1973
Roswell L. Gilpatric	Partner, Cravath, Swaine & Moore, Attorneys, New York, N.Y.	1974

BUFFALO BRANCH

Appointed by Federal Reserve Bank:		
David J. Laub	Chairman of the Board, Marine Midland Bank-Western, Buffalo, N.Y.	1972
William B. Anderson	President, The First National Bank of Jamestown, N.Y.	1973
Angelo A. Costanza	President and Chief Executive Officer, Central Trust Company, Rochester, N.Y.	1973
Theodore M. McClure	President, The Citizens National Bank and Trust Company, Wellsville, N.Y.	1974
Appointed by Board of Governors:		
Morton Adams	President, Curtice-Burns, Inc., Rochester, N.Y.	1972
Rupert Warren	President, Trico Products Corporation, Buffalo, N.Y.	1973
Norman F. Beach	Vice President and General Manager, Kodak Park Division, Eastman Kodak Company, Rochester, N.Y.	1974

DIRECTORS—*Continued*	**District 3—PHILADELPHIA**	*Term expires Dec. 31*
Class A:		
William R. Cosby	Chairman of the Board, Princeton Bank and Trust Company, Princeton, N.J.	1972
Richard A. Herbster	President, Lewistown Trust Company, Lewistown, Pa.	1973
(Vacancy)		1974
Class B:		
Edward J. Dwyer	Chairman and Chief Executive Officer, ESB Incorporated, Philadelphia, Pa.	1972
(Vacancy)		1973
C. Graham Berwind, Jr.	President and Chief Executive Officer, Berwind Corporation, Philadelphia, Pa.	1974
Class C:		
Bayard L. England	Retired Chairman of Board, Atlantic City Electric Company, Ventnor, N.J.	1972
John R. Coleman	President, Haverford College, Haverford, Pa.	1973
Edw. W. Robinson, Jr.	President, Provident Home Industrial Mutual Life Insurance Co., Philadelphia, Pa.	1974

District 4—CLEVELAND

Class A:		
David L. Brumback, Jr.	President, Van Wert National Bank, Van Wert, Ohio	1972
Edward W. Barker	President, First National Bank of Middletown, Ohio	1973
A. Bruce Bowden	Vice Chairman of the Board, Mellon National Bank and Trust Company, Pittsburgh, Pa.	1974
Class B:		
R. Stanley Laing	Dayton, Ohio	1972
John L. Gushman	Chairman of the Board and Chief Executive Officer, Anchor Hocking Corporation, Lancaster, Ohio	1973
Donald E. Noble	President and Chief Executive Officer, Rubbermaid Incorporated, Wooster, Ohio	1974

DIRECTORS—*Continued* **District 4—CLEVELAND—Cont.** *Term expires Dec. 31*

Class C:

Albert G. Clay	President, Clay Tobacco Company, Mt. Sterling, Ky.	1972
J. Ward Keener	Chairman of the Executive Committee, The B. F. Goodrich Company, Akron, Ohio	1973
Horace A. Shepard	Chairman of the Board and Chief Executive Officer, TRW Inc., Cleveland, Ohio	1974

CINCINNATI BRANCH

Appointed by Federal Reserve Bank:

Paul W. Christensen, Jr.	President, The Cincinnati Gear Company, Cincinnati, Ohio	1972
Robert E. Hall	President, The First National Bank and Trust Company, Troy, Ohio	1972
William S. Rowe	President, The Fifth Third Bank, Cincinnati, Ohio	1973
E. Paul Williams	President, Second National Bank, Ashland, Ky.	1974

Appointed by Board of Governors:

Phillip R. Shriver	President, Miami University, Oxford, Ohio	1972
Clair F. Vough	Vice President, Office Products Division, IBM Corporation, Lexington, Ky.	1973
Graham E. Marx	President and General Manager, The G. A. Gray Company, Cincinnati, Ohio	1974

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank:

Robinson F. Barker	Chairman of the Board and Chief Executive Officer, PPG Industries, Inc., Pittsburgh, Pa.	1972
John W. Bingham	President, The Merchants and Manufacturers National Bank of Sharon, Md.	1972
Merle E. Gilliand	Chairman of the Board and Chief Executive Officer, Pittsburgh National Bank, Pittsburgh, Pa.	1973
Charles F. Ward	President, Gallatin National Bank, Uniontown, Pa.	1974

DIRECTORS—*Continued*

District 4—CLEVELAND—Cont.

PITTSBURGH BRANCH—Continued

		Term expires Dec. 31
Appointed by Board of Governors:		
Lawrence E. Walkley	Retired President, Westinghouse Air Brake Company, Pittsburgh, Pa.	1972
Robert E. Kirby	President, Industry and Defense Company, Westinghouse Electric Corporation, Pittsburgh, Pa.	1973
Richard M. Cyert	President, Carnegie-Mellon University, Pittsburgh, Pa.	1974

District 5—RICHMOND

Class A:		
Hugh A. Curry	President and Chief Executive Officer, The Kanawha Valley Bank, Charleston, W. Va.	1972
Thomas P. McLachlen	President, McLachlen National Bank, Washington, D.C.	1973
Edward N. Evans	President, Farmers & Merchants National Bank of Cambridge, Md.	1974
Class B:		
Robert S. Small	President, Dan River Inc., Greenville, S.C.	1972
H. Dail Holderness	President, Carolina Telephone and Telegraph Company, Tarboro, N.C.	1973
Henry C. Hofheimer, II	Chairman, Virginia Real Estate Investment Trust, Norfolk, Va.	1974
Class C:		
Robert W. Lawson, Jr.	Managing Partner, Charleston Office, Steptoe & Johnson, Attorneys, Charleston, W. Va.	1972
Stuart Shumate	President, Richmond, Fredericksburg and Potomac Railroad Company, Richmond, Va.	1973
E. Craig Wall, Sr.	Chairman of the Board, Canal Industries, Inc., Conway, S.C.	1974

DIRECTORS—*Continued* **District 5—RICHMOND—Cont.** *Term expires Dec. 31*

BALTIMORE BRANCH

Appointed by Federal Reserve Bank:

J. R. Chaffinch, Jr.	President, The Denton National Bank, Denton, Md.	1972
James J. Robinson	Executive Vice President, Bank of Ripley, W. Va.	1973
J. Stevenson Peck	Union Trust Company of Maryland, Baltimore, Md.	1973
Tilton H. Dobbin	President and Chairman of the Executive Committee, Maryland National Bank, Baltimore, Md.	1974

Appointed by Board of Governors:

Arnold J. Kleff, Jr.	Former Manager, Baltimore Refinery, American Smelting and Refining Company, Baltimore, Md.	1972
John H. Fetting, Jr.	President, A. H. Fetting Company, Baltimore, Md.	1973
James G. Harlow	President, West Virginia University, Morgantown, W. Va.	1974

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank:

J. Willis Cantey	Chairman and Chief Executive Officer, The Citizens & Southern National Bank of South Carolina, Columbia, S.C.	1972
C. C. Cameron	Chairman of the Board and President, First Union National Bank of North Carolina, Charlotte, N.C.	1973
H. Phelps Brooks, Jr.	President, The Peoples National Bank, Chester, S.C.	1973
L. D. Coltrane, III	President, The Concord National Bank, Concord, N.C.	1974

Appointed by Board of Governors:

Robert C. Edwards	President, Clemson University, Clemson, S.C.	1972
Charles W. DeBell	General Manager, North Carolina Works, Western Electric Company, Inc., Winston-Salem, N.C.	1973
Charles F. Benbow	Vice President, R. J. Reynolds Industries, Inc., Winston-Salem, N.C.	1974

DIRECTORS—*Continued*

District 6—ATLANTA

		Term expires Dec. 31
Class A:		
William B. Mills	President, The Florida National Bank, Jacksonville, Fla.	1972
A. L. Ellis	Chairman of the Board, First National Bank, Tarpon Springs, Fla.	1973
Jack P. Keith	President, First National Bank of West Point, Ga.	1974
Class B:		
Philip J. Lee	Vice President, Tropicana Products, Inc., Tampa, Fla.	1972
Hoskins A. Shadow	President, Tennessee Valley Nursery, Inc., Winchester, Tenn.	1973
Owen Cooper	President, Mississippi Chemical Corporation, Yazoo City, Miss.	1974
Class C:		
F. Evans Farwell	President, Milliken and Farwell, Inc., New Orleans, La.	1972
John C. Wilson	President, Horne-Wilson, Inc., Atlanta, Ga.	1973
H. G. Pattillo	President, Pattillo Construction Company, Inc., Decatur, Ga.	1974

BIRMINGHAM BRANCH

Appointed by Federal Reserve Bank:		
Harvey Terrell	Chairman of the Board, The First National Bank of Birmingham, Ala.	1972
Wallace D. Malone, Jr.	President and Chairman of the Board, The First National Bank of Dothan, Ala.	1973
C. Logan Taylor	Chairman of the Board, The First State Bank of Oxford, Ala.	1973
W. Eugene Morgan	President and Chief Executive Officer, The First National Bank of Huntsville, Ala.	1974
Appointed by Board of Governors:		
Frederick G. Koenig, Jr.	President and Chief Executive Officer, Alabama By-Products Corporation, Birmingham, Ala.	1972
David Mathews	President, University of Alabama, University, Ala.	1973
William C. Bauer	President, South Central Bell, Birmingham, Ala.	1974

DIRECTORS—*Continued* **District 6—ATLANTA—Cont.** *Term expires Dec. 31*

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank:

James G. Richardson	Chairman of the Board and President, The Commercial Bank and Trust Company of Ocala, Fla.	1972
Malcolm C. Brown	President and Chairman of the Board, Florida First National Bank at Brent, Pensacola, Fla.	1973
A. Clewis Howell	President, Marine Bank & Trust Company, Tampa, Fla.	1973
Guy W. Botts	Vice Chairman of the Board, Barnett Bank of Jacksonville, N.A., Jacksonville, Fla.	1974

Appointed by Board of Governors:

Henry K. Stanford	President, University of Miami, Coral Gables, Fla.	1972
Henry Cragg	Vice President, The Coca-Cola Company Foods Division, Winter Park, Fla.	1973
Gert H. W. Schmidt	President, TeLeVision 12 of Jacksonville, Fla.	1974

NASHVILLE BRANCH

Appointed by Federal Reserve Bank:

Edward C. Huffman	Chairman of the Board and President, First National Bank, Shelbyville, Tenn.	1972
Dan B. Andrews	President, First National Bank, Dickson, Tenn.	1973
Edward G. Nelson	President, Commerce Union Bank, Nashville, Tenn.	1973
Thomas C. Mottern	President, Hamilton National Bank of Johnson City, Tenn.	1974

Appointed by Board of Governors:

John C. Tune	Partner, Butler, McHugh, Butler, Tune & Watts, Attorneys, Nashville, Tenn.	1972
James W. Long	President, Robertson County Farm Bureau, Springfield, Tenn.	1973
Edward J. Boling	President, University of Tennessee, Knoxville, Tenn.	1974

DIRECTORS—*Continued* **District 6—ATLANTA—Cont.** *Term expires Dec. 31*

NEW ORLEANS BRANCH

Appointed by Federal Reserve Bank:

H. P. Heidelberg, Jr.	President, Pascagoula-Moss Point Bank, Pascagoula, Miss.	1972
Tom A. Flanagan, Jr.	President, Lakeside National Bank of Lake Charles, La.	1973
Lawrence A. Merrigan	President, The Bank of New Orleans and Trust Company, New Orleans, La.	1973
Archie R. McDonnell	President, Citizens National Bank, Meridian, Miss.	1974

Appointed by Board of Governors:

Edwin J. Caplan	President, Caplan's Men's Shops, Inc., Alexandria, La.	1972
Broadus N. Butler	President, Dillard University, New Orleans, La.	1973
Fred Adams, Jr.	President, Cal-Maine Foods, Inc., Jackson, Miss.	1974

District 7—CHICAGO

Class A:

Edward Byron Smith	Chairman of the Board, The Northern Trust Company, Chicago, Ill.	1972
Melvin C. Lockard	President, First National Bank, Mattoon, Ill.	1973
Floyd F. Whitmore	President, The Okey-Vernon National Bank, Corning, Iowa	1974

Class B:

William H. Davidson	President, Harley-Davidson Motor Co., Inc., Milwaukee, Wis.	1972
Howard M. Packard	Vice Chairman, S. C. Johnson & Son, Inc., Racine, Wis.	1973
John T. Hackett	Executive Vice President, Cummins Engine Company, Inc., Columbus, Ind.	1974

Class C:

Emerson G. Higdon	Chairman of the Board, The Maytag Company, Newton, Iowa	1972
John W. Baird	President, Baird & Warner, Inc., Chicago, Ill.	1973
William H. Franklin	Chairman of the Board, Caterpillar Tractor Co., Peoria, Ill.	1974

DIRECTORS—*Continued*	District 7—CHICAGO—Cont.	*Term expires Dec. 31*

DETROIT BRANCH

Appointed by Federal Reserve Bank:

George L. Whyel	President, Genesee Merchants Bank & Trust Company, Flint, Mich.	1972
Roland A. Mewhort	Chairman, Manufacturers National Bank of Detroit, Mich.	1972
Ellis B. Merry	Chairman of the Board, National Bank of Detroit, Mich.	1973
Harold A. Elgas	President, Gaylord State Bank, Gaylord, Mich.	1974

Appointed by Board of Governors:

W. M. Defoe	Chairman of the Board, Defoe Shipbuilding Company, Bay City, Mich.	1972
L. Wm. Seidman	Resident Partner, Seidman & Seidman, Grand Rapids, Mich.	1973
Peter B. Clark	Chairman of the Board and President, The Evening News Association, Detroit, Mich.	1974

District 8—ST. LOUIS

Class A:

Cecil W. Cupp, Jr.	President, Arkansas Bank & Trust Company, Hot Springs, Ark.	1972
Bradford Brett	President, The First National Bank of Mexico, Mo.	1973
Edwin S. Jones	Chairman of the Board, First National Bank in St. Louis, Mo.	1974

Class B:

Edward J. Schnuck	Chairman of the Board, Schnuck Markets, Inc., Bridgeton, Mo.	1972
Fred I. Brown, Jr.	President, Arkansas Foundry Company, Little Rock, Ark.	1973
James M. Tuholski	President, Mead Johnson & Company, Evansville, Ind.	1974

DIRECTORS—*Continued* **District 8—ST. LOUIS—Cont.** *Term expires Dec. 31*

Class C:

Sam Cooper	President, HumKo Products, Division of Kraftco Corporation, Memphis, Tenn.	1972
Harry M. Young, Jr.	Melrose Farms, Herndon, Ky.	1973
Frederic M. Peirce	Chairman of the Board and Chief Executive Officer, General American Life Insurance Company, St. Louis, Mo.	1974

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank:

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
Edward M. Penick	President and Chief Executive Officer, Worthen Bank & Trust Company, Little Rock, Ark.	1973
Will H. Kelley	President and Chief Executive Officer, The State First National Bank of Texarkana, Ark.	1974

Appointed by Board of Governors:

Jake Hartz, Jr.	President, Jacob Hartz Seed Co., Inc., Stuttgart, Ark.	1972
Roland R. Remmel	Chairman of the Board, Southland Building Products Co., Little Rock, Ark.	1973
Al Pollard	President, Al Pollard & Associates, Little Rock, Ark.	1974

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank:

Paul Chase	President, The Bedford National Bank, Bedford, Ind.	1972
Herbert J. Smith	President, The American National Bank & Trust Company of Bowling Green, Ky.	1972
Harold E. Jackson	President, The Scott County State Bank, Scottsburg, Ind.	1973
Hugh M. Shwab	Chairman of the Boards, First National Bank of Louisville and The Kentucky Trust Company, Louisville, Ky.	1974

DIRECTORS—*Continued* **District 8—ST. LOUIS—Cont.** *Term expires Dec. 31*

LOUISVILLE BRANCH—Continued

Appointed by Board of Governors:

James H. Davis	Chairman and Chief Executive Officer, Porter Paint Company, Louisville, Ky.	1972
William H. Stroube	Associate Dean, College of Science and Technology, Western Kentucky University, Bowling Green, Ky.	1973
James C. Hendershot	President and Chief Operating Officer, Reliance Universal, Inc., Louisville, Ky.	1974

MEMPHIS BRANCH

Appointed by Federal Reserve Bank:

James R. Fitzhugh	Executive Vice President, Bank of Ripley, Tenn.	1972
Wayne W. Pyeatt	President, National Bank of Commerce, Memphis, Tenn.	1972
J. J. White	President, Helena National Bank, Helena, Ark.	1973
Garner L. Hickman	Chairman and President, The First National Bank of Oxford, Miss.	1974

Appointed by Board of Governors:

William L. Giles	President, Mississippi State University, State College, Miss.	1972
Alvin Huffman, Jr.	President, Huffman Brothers Incorporated, Blytheville, Ark.	1973
C. Whitney Brown	President, S. C. Toof & Company, Memphis, Tenn.	1974

District 9—MINNEAPOLIS

Class A:

John Bosshard	Executive Vice President, First National Bank of Bangor, Wis.	1972
Philip H. Nason	Chairman of the Board, The First National Bank of Saint Paul, Minn.	1973
Roy H. Johnson	President, The First National Bank of Negaunee, Mich.	1974

Class B:

David M. Heskett	President, Montana-Dakota Utilities Co., Bismarck, N.D.	1972
Dale V. Andersen	President, Mitchell Packing Company, Inc., Mitchell, S.D.	1973
John H. Bailey	President, The Cretex Companies, Inc., Elk River, Minn.	1974

DIRECTORS—*Continued* **District 9—MINNEAPOLIS—Cont.**

		Term expires Dec. 31
Class C:		
David M. Lilly	Chairman of the Board, The Toro Company, Minneapolis, Minn.	1972
Russ B. Hart	President, Hart-Albin Company, Billings, Mont.	1973
Bruce B. Dayton	Chairman of the Board, Dayton Hudson Corporation, Minneapolis, Minn.	1974

HELENA BRANCH

Appointed by Federal Reserve Bank:		
E. Lowry Kunkel	President, First National Bank, Butte, Mont.	1972
Robert I. Penner	President, Citizens First National Bank, Wolf Point, Mont.	1972
Richard D. Rubie	President, Missoula Bank of Montana, Missoula, Mont.	1973
Appointed by Board of Governors:		
Warren B. Jones	Secretary-Treasurer, Two Dot Land and Livestock Company, Harlowton, Mont.	1972
William A. Cordingley	Publisher, Great Falls Tribune, Great Falls, Mont.	1973

District 10—KANSAS CITY

Class A:		
Roger D. Knight, Jr.	Chairman of the Board, United Banks of Colorado, Inc., Denver, Colo.	1972
C. Mose Miller	Chairman of the Board and President, The Farmers and Merchants State Bank, Colby, Kan.	1973
John A. O'Leary	Chairman of the Board, The Peoples State Bank, Luray, Kan.	1974
Class B:		
Cecil O. Emrich	President, C. O. Emrich Enterprises, Norfolk, Nebr.	1972
Alfred E. Jordan	Vice President, Trans World Airlines, Inc., Kansas City, Mo.	1973
Frank C. Love	President, Kerr-McGee Corporation, Oklahoma City, Okla.	1974

DIRECTORS—*Continued* District 10—KANSAS CITY—Cont.		*Term expires Dec. 31*
Class C:		
Willard Deere Hosford, Jr.	Retired Vice President and General Manager, John Deere Company, Omaha, Nebr.	1972
Robert T. Person	President and Chairman of the Board, Public Service Company of Colorado, Denver, Colo.	1973
Robert W. Wagstaff	Chairman of the Board and President, Coca-Cola Bottling Company of Mid-America, Kansas City, Mo	1974

DENVER BRANCH

Appointed by Federal Reserve Bank:		
Robert L. Tripp	President, Albuquerque National Bank, Albuquerque, N. Mex.	1972
Dale R. Hinman	Chairman of the Board, The Greeley National Bank, Greeley, Colo.	1972
John W. Hay, Jr.	President, Rock Springs National Bank, Rock Springs, Wyo.	1973
Appointed by Board of Governors:		
David R. C. Brown	President, The Aspen Skiing Corporation, Aspen, Colo.	1972
Maurice B. Mitchell	Chancellor, University of Denver, Colo.	1973

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank:		
Marvin Millard	Chairman of the Board, National Bank of Tulsa, Okla.	1972
Hugh C. Jones	Executive Vice President, The Bank of Woodward, Okla.	1972
W. H. McDonald	Chairman of the Executive Committee, The First National Bank and Trust Company of Oklahoma City, Okla.	1973
Appointed by Board of Governors:		
Florin W. Zaloudek	Manager, J. I. Case Implements, Kremlin, Okla.	1972
Joseph H. Williams	President and Chief Operating Officer, The Williams Companies, Tulsa, Okla.	1973

DIRECTORS—*Continued* District 10—KANSAS CITY—Cont.		*Term expires Dec. 31*
	OMAHA BRANCH	
Appointed by Federal Reserve Bank:		
Edward W. Lyman	President, The United States National Bank of Omaha, Nebr.	1972
S. N. Wolbach	President, The First National Bank of Grand Island, Nebr.	1973
Glenn Yaussi	Chairman of the Board, National Bank of Commerce Trust & Savings, Lincoln, Nebr.	1973
Appointed by Board of Governors:		
Henry Y. Kleinkauf	President, Natkin & Company, Omaha, Nebr.	1972
A. James Ebel	Vice President and General Manager, Cornhusker Television Corporation, Lincoln, Nebr.	1973

District 11—DALLAS

Class A:		
Murray Kyger	Chairman of the Executive Committee, The First National Bank of Fort Worth, Tex.	1972
J. V. Kelly	President, The Peoples National Bank of Belton, Tex.	1973
A. W. Riter, Jr.	President, The Peoples National Bank of Tyler, Tex.	1974
Class B:		
C. A. Tatum, Jr.	Chairman of the Board and Chief Executive Officer, Texas Utilities Company, Dallas, Tex.	1972
Carl D. Newton	Chairman of the Board, Fox-Stanley Photo Products, Inc., San Antonio, Tex.	1973
Hugh F. Steen	President, El Paso Natural Gas Company, El Paso, Tex.	1974
Class C:		
Philip G. Hoffman	President, University of Houston, Tex.	1972
John Lawrence	Chairman of the Board, Dresser Industries, Inc., Dallas, Tex.	1973
Chas. F. Jones	Dean, College of Business Administration, University of Houston, Tex.	1974

DIRECTORS—*Continued*	District 11—DALLAS—Cont.	*Term expires Dec. 31*

EL PASO BRANCH

Appointed by Federal Reserve Bank:

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
Cullen J. Kelly	President, The First National Bank of Midland, Tex.	1973
Wayne Stewart	President, First National Bank in Alamagordo, N. Mex.	1974

Appointed by Board of Governors:

Allan B. Bowman	President and General Manager, Banner Mining Company, Tucson, Ariz.	1972
Herbert M. Schwartz	President, Popular Dry Goods Co., Inc., El Paso, Tex.	1973
Gage Holland	Owner, Gage Holland Ranch, Marathon, Tex.	1974

HOUSTON BRANCH

Appointed by Federal Reserve Bank:

W. G. Thornell	Chairman of the Board and President, The First National Bank of Port Arthur, Tex.	1972
John E. Whitmore	Chairman of the Board and Chief Executive Officer, Texas Commerce Bank National Association, Houston, Tex.	1972
Kline McGee	Chairman of the Board, Southern National Bank of Houston, Tex.	1973
Seth W. Dorbandt	Chairman of the Board and President, First National Bank in Conroe, Tex.	1974

Appointed by Board of Governors:

Geo. T. Morse, Jr.	Vice Chairman of the Board and Chief Operating Officer, Peden Industries, Inc., Houston, Tex.	1972
M. Steel Wright, Jr.	Chairman of the Board, Texas Farm Products Company, Nacogdoches, Tex.	1973
R. M. Buckley	President and Director, Eastex Incorporated, Silsbee, Tex.	1974

DIRECTORS—*Continued* **District 11—DALLAS—Cont.** *Term expires Dec. 31*

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank:

Tom C. Frost, Jr.	Chairman of the Board, The Frost National Bank of San Antonio, Tex.	1972
W. O. Roberson	President, First National Bank at Brownsville, Tex.	1972
Ray M. Keck, Jr.	Chairman of the Board and President, Union National Bank of Laredo, Tex.	1973
Leon Stone	President, The Austin National Bank, Austin, Tex.	1974

Appointed by Board of Governors:

W. A. Belcher	Veterinarian and rancher, Corazon Ranch, Brackettville, Tex.	1972
Irving A. Mathews	Chairman of the Board and Chief Executive Officer, Frost Bros., Inc., San Antonio, Tex.	1973
Marshall Boykin, III	Partner, Wood, Boykin & Wolter, Corpus Christi, Tex.	1974

District 12—SAN FRANCISCO

Class A:

Carroll F. Byrd	Chairman of the Board and President, The First National Bank of Willows, Calif.	1972
Ralph J. Voss	President, First National Bank of Oregon, Portland, Oreg.	1973
Carl E. Schroeder	President, The First National Bank of Orange County, Orange, Calif.	1974

Class B:

Joseph Rosenblatt	Honorary Chairman of the Board, The Eimco Corporation, Salt Lake City, Utah	1972
Marron Kendrick	President and Chairman of the Board, Schlage Lock Company, San Francisco, Calif.	1973
Charles R. Dahl	President, Crown Zellerbach, San Francisco, Calif.	1974

DIRECTORS—*Continued* **District 12—SAN FRANCISCO—Cont.**		*Term expires Dec. 31*
Class C:		
S. Alfred Halgren	Senior Vice President, Carnation Company, Los Angeles, Calif.	1972
O. Meredith Wilson	President and Director, Center for Advanced Study in the Behavioral Sciences, Stanford, Calif.	1973
Mas Oji	President, Oji Bros. Farm, Inc., Yuba City, Calif.	1974

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank:		
W. Gordon Ferguson	President, National Bank of Whittier, Calif.	1972
Linus E. Southwick	President, Valley National Bank, Glendale, Calif.	1973
Carl E. Hartnack	President, Security Pacific National Bank, Los Angeles, Calif.	1973
Rayburn S. Dezember	Chairman of the Board and President, American National Bank, Bakersfield, Calif.	1974
Appointed by Board of Governors:		
Leland D. Pratt	President, Kelco Company, San Diego, Calif.	1972
Edward A. Sloan	President, Sloan's Dry Cleaners, Los Angeles, Calif.	1973
Ruth Handler	President, Mattel, Inc., Hawthorne, Calif.	1974

PORTLAND BRANCH

Appointed by Federal Reserve Bank:		
James H. Stanard	Vice President, First National Bank of McMinnville, Oreg.	1972
Frank L. Servoss	President, Crater National Bank of Medford, Oreg.	1972
LeRoy B. Staver	Chairman of the Board and Chief Executive Officer, United States National Bank of Oregon, Portland, Oreg.	1973
Appointed by Board of Governors:		
John R. Howard	President, Lewis and Clark College, Portland, Oreg.	1972
Frank Anderson	Farmer, Heppner, Oreg.	1973

DIRECTORS—*Continued* **District 12—SAN FRANCISCO—Cont.** *Term expires Dec. 31*

SALT LAKE CITY BRANCH

Appointed by Federal Reserve Bank:

Roderick H. Browning	President, Bank of Utah, Ogden, Utah	1972
Roy W. Simmons	President, Zions First National Bank, Salt Lake City, Utah	1972
Joseph Bianco	Chairman of the Board and President, Bank of Idaho, Boise, Idaho	1973

Appointed by Board of Governors:

(Vacancy)		1972
Theodore C. Jacobsen	Chairman of the Board, Jacobsen Construction Company, Inc., Salt Lake City, Utah	1973

SEATTLE BRANCH

Appointed by Federal Reserve Bank:

A. E. Saunders	Vice Chairman of the Board, Puget Sound National Bank, Tacoma, Wash.	1972
Philip H. Stanton	President, Washington Trust Bank, Spokane, Wash.	1972
Joseph C. Baillargeon	Chairman of the Board and Chief Executive Officer, Seattle Trust & Savings Bank, Seattle, Wash.	1973

Appointed by Board of Governors:

C. Henry Bacon, Jr.	Vice Chairman of the Board, Simpson Timber Company, Seattle, Wash.	1972
Thomas T. Hirai	President, Quality Growers Company, Inc., Woodinville, Wash.	1973

PRESIDENTS AND VICE PRESIDENTS

(December 31, 1972)

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Boston	Frank E. Morris E. O. Latham	D. Harry Angney Lee J. Aubrey Foster K. Cummings Luther M. Hoyle, Jr. Donald A. Pelletier Laurence H. Stone James T. Timberlake	Daniel Aquilino Norman T. Byrnes R. W. Eisenmenger Niels O. Larsen Richard E. Randall J. M. Thayer, Jr. Richard A. Walker
New York	Alfred Hayes William F. Treiber	David E. Bodner Charles A. Coombs Peter Fousek Alan R. Holmes Leonard Lapidus Fred W. Piderit, Jr. Peter D. Sternlight Thomas O. Waage	W. H. Braun, Jr. Richard A. Debs Edward G. Guy John T. Keane Robert G. Link Everett B. Post T. M. Timlen, Jr.
Buffalo		Angus A. MacInnes, Jr.	
Philadelphia	David P. Eastburn Mark H. Willes	Edward A. Aff Edward G. Boehne Thomas K. Desch Joseph R. Joyce G. William Metz William E. Roman Robert R. Swander	Hugh Barrie Joseph M. Case William A. James A. A. Kudelich L. C. Murdoch, Jr. Kenneth M. Snader
Cleveland	Willis J. Winn W. H. MacDonald	John E. Birky Paul Breidenbach Elmer F. Fricek W. H. Hendricks John J. Hoy Frederick S. Kelly Robert E. Showalter	George E. Booth, Jr. Roger R. Clouse R. Joseph Ginnane William J. Hocter Harry W. Huning R. Thomas King Donald G. Vincel
Cincinnati		Robert D. Duggan Fred O. Kiel	
Pittsburgh		James H. Campbell Charles E. Houpt	
Richmond	Aubrey N. Heflin Robert P. Black	L. W. Bostian, Jr. John G. Deitrick H. Ernest Ford A. V. Myers, Jr. James Parthemos John F. Rand Aubrey N. Snellings William F. Upshaw	W. T. Cunningham, Jr. Welford S. Farmer William C. Glover John L. Nosker C. D. Porter, Jr. R. E. Sanders, Jr. Andrew L. Tilton

PRESIDENTS AND VICE PRESIDENTS—*Continued*

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Richmond— Cont.			
Baltimore		H. Lee Boatwright, III A. A. Stewart, Jr. Gerald L. Wilson	
Charlotte		Stuart P. Fishburne Jimmie R. Monhollon	
Culpeper[1]		J. Gordon Dickerson, Jr. Albert D. Tinkelenberg	
Atlanta	Monroe Kimbrel Kyle K. Fossum	Harry Brandt Billy H. Hargett Arthur H. Kantner Brown R. Rawlings Charles T. Taylor	Robert P. Forrestal Robert E. Heck J. E. McCorvey Richard A. Sanders Pierre M. Viguerie
Birmingham		Dan L. Hendley	
Jacksonville		Edward C. Rainey	
Miami[1]		W. M. Davis	
Nashville		Jeffrey J. Wells	
New Orleans		George C. Guynn	
Chicago	Robert P. Mayo Ernest T. Baughman	Carl E. Bierbauer LeRoy A. Davis Elbert O. Fults Edward A. Heath R. A. Moffatt R. M. Scheider Harry S. Schultz Jack P. Thompson	George W. Cloos R. W. Dybeck V. A. Hansen Ward J. Larson J. R. Morrison Karl A. Scheld Bruce L. Smyth Allen G. Wolkey
Detroit		William C. Conrad Daniel M. Doyle Ronald L. Zile	
St. Louis	Darryl R. Francis Eugene A. Leonard	Leonall C. Andersen Joseph P. Garbarini Jerry L. Jordan D. W. Moriarty, Jr. Charles E. Silva Howard H. Weigel	Gerald T. Dunne W. W. Gilmore John W. Menges F. G. Russell, Jr. Harold E. Uthoff
Little Rock		John F. Breen	

[1] Not considered a branch.

PRESIDENTS AND VICE PRESIDENTS—*Continued*

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
St. Louis— Cont.			
Louisville		Donald L. Henry	
Memphis		L. Terry Britt	
Minneapolis	Bruce K. MacLaury	Frederick J. Cramer	Ralph J. Dreitzler
	M. H. Strothman, Jr.	L. W. Fernelius	Lester G. Gable
		Thomas E. Gainor	Roland D. Graham
		Douglas R. Hellweg	John A. MacDonald
		David R. McDonald	Clarence W. Nelson
		John P. Olin	C. A. Van Nice
		R. W. Worcester	
Helena		Howard L. Knous	
Kansas City	George H. Clay	W. T. Billington	H. R. Czerwinski
	John T. Boysen	Thomas E. Davis	Raymond J. Doll
		Joseph R. Euans	Roger Guffey
		J. David Hamilton	Wayne W. Martin
		M. L. Mothersead	Robert E. Thomas
Denver		George C. Rankin	
Oklahoma City		William G. Evans	
Omaha		Robert D. Hamilton	
Dallas	Philip E. Coldwell	Robert H. Boykin	Leon W. Cowan
	T. W. Plant	Ralph T. Green	Larry D. Higgins
		James A. Parker	W. M. Pritchett
		T. J. Salvaggio	T. R. Sullivan
		E. W. Vorlop	
El Paso		Frederic W. Reed	
Houston		James L. Cauthen	
		Rasco R. Story	
San Antonio		Carl H. Moore	
San Francisco	John J. Balles	A. S. Carella	J. H. Craven
	A. B. Merritt	D. M. Davenport	W. H. Hutchins
		H. B. Jamison	G. R. Kelly
		D. V. Masten	Rix Maurer, Jr.
		Louis E. Reilly	R. G. Retallick
		Kent O. Sims	J. B. Williams
Los Angeles		P. W. Cavan	
		W. G. DeVries	
Portland		W. M. Brown	
Salt Lake City		A. L. Price	
Seattle		W. R. Sandstrom	

CONFERENCE OF PRESIDENTS

The Presidents of the Federal Reserve Banks are organized into a Conference of Presidents that meets from time to time to consider matters of common interest and to consult with and advise the Board of Governors. At a meeting on February 9, 1971, the Conference elected Mr. Francis (President of the Federal Reserve Bank of St. Louis) and Mr. Kimbrel (President of the Federal Reserve Bank of Atlanta) Chairman and Vice Chairman, respectively, for the remainder of 1971 and for the forthcoming Conference year, ending with the March 1972 meeting. At the meeting on March 20, 1972, Mr. Kimbrel and Mr. Coldwell (President of the Federal Reserve Bank of Dallas) were elected Chairman and Vice Chairman, respectively, for the remainder of 1972 and for the forthcoming Conference year, ending with the March 1973 meeting.

At the February and March 1971 meetings, Mr. Joseph P. Garbarini (Federal Reserve Bank of St. Louis) and Mr. H. Terry Smith (Federal Reserve Bank of Atlanta) were appointed Secretary and Assistant Secretary, respectively. Mr. H. Terry Smith and Mr. Robert Smith, III (Federal Reserve Bank of Dallas) were appointed Secretary and Assistant Secretary, respectively, at the March 1972 meeting.

CONFERENCE OF FIRST VICE PRESIDENTS

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet from time to time, primarily for the consideration of operational matters. Effective March 1, 1971, Mr. Lewis (First Vice President of the Federal Reserve Bank of St. Louis) and Mr. Fossum (First Vice President of the Federal Reserve Bank of Atlanta) were elected Chairman and Vice Chairman, respectively, of the Conference. Mr. Joseph P. Garbarini and Mr. H. Terry Smith were appointed Secretary and Assistant Secretary, respectively. On August 3, 1971, Mr. Leonard (First Vice President of the Federal Reserve Bank of St. Louis) was elected Chairman to succeed Mr. Lewis, who retired on July 31, 1971.

On May 2, 1972, the Conference elected Mr. Fossum as Chairman and Mr. Plant (First Vice President of the Federal Reserve Bank of Dallas) as Vice Chairman, and appointed Mr. H. Terry Smith and Mr. Robert Smith III, as Secretary and Assistant Secretary, respectively, for the forthcoming Conference year.

Index

Page

Page

Page