60th Annual Report 1973

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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Letter of Transmittal

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM
Washington, May 30, 1974

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 Sixtieth Annual Report of the Board of Governors of the Federal Reserve System.

This report covers operations of the Board during the calendar year 1973.

Yours respectfully,

Arthur F. Burns, *Chairman*

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Part 1

Monetary Policy and the U.S. Economy in 1973

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Introduction

In 1973 the U.S. economy was plagued by its worst inflation since the end of World War II. Wholesale prices rose by 18 per cent during the year and consumer prices by nearly 9 per cent. At the end of the year inflation was still running strong, led by sharply higher prices for foreign crude oil and petroleum products in U.S. markets. The economic expansion, under way since 1971, slowed markedly over the course of 1973 in response to more restrictive national economic policies and the adverse effects of the rapid advance in prices on consumer buying power. Activity was also dampened in the latter part of the year by the energy shortage, which generated widespread buyer uncertainty and seriously disrupted longstanding patterns of demand for autos and other goods and services.

The exceptional strength of the 1973 inflation stemmed mainly from extraordinary shortfalls relative to world demand in the output of agricultural products and in supplies of energy. Prices of foods and fibers were affected by worldwide shortages, largely the result of poor crop yields during the 1972 growing season in many producing countries. And fuel prices were boosted by shortages of oil, which were serious at times early in 1973 and acute in late autumn, following the cutbacks in Middle East output.

The devaluation of the dollar in February 1973, and the further declines in the foreign exchange value of the dollar, which occurred during the spring and summer, provided additional fuel for the inflation. Prices of foreign goods sold in the United States rose sharply, and business demands for materials and supplies tended to shift to this country from foreign sources. Moreover, the competitive position of U.S. goods in world markets was enhanced further, stimulating foreign demands for U.S. goods at a time when such demands were already growing markedly in response to the previous devaluation of the dollar in December 1971 and to the inflationary boom that was under way in the economies of most industrial countries of the world.

The economic situation that was developing in this country also contributed to the inflation. The U.S. economy had expanded at a

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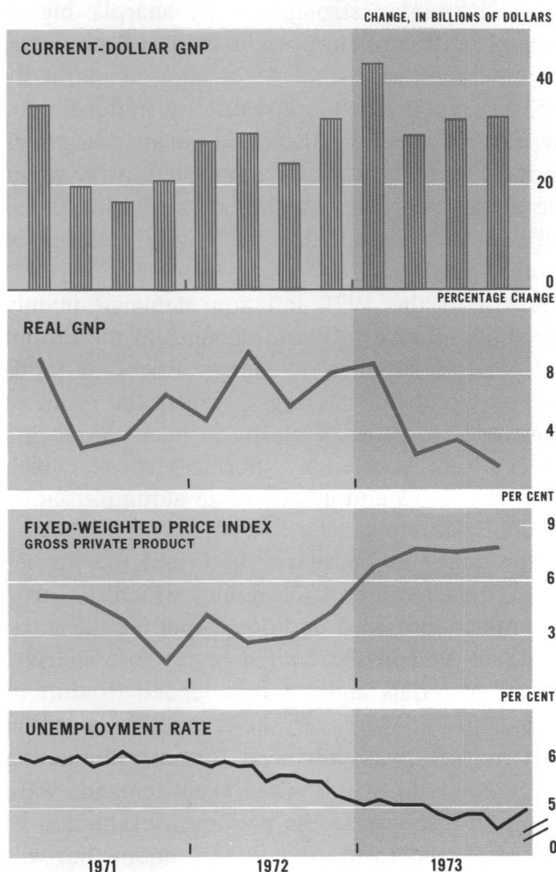
very rapid rate in late 1972 and early 1973 as demands for goods and services strengthened substantially further, partly in reaction to public policies instituted to encourage greater utilization of the Nation's productive resources. And consumption demands were also

INDICATORS OF ECONOMIC PERFORMANCE



NOTE.—Changes for current-dollar GNP are from preceding quarter and are based on quarterly data at seasonally adjusted annual rates. Changes for real GNP (based on data expressed in 1958 dollars) are at annual rates. Data are from Dept. of Commerce.
Fixed-weighted price index: Change from preceding quarter compounded at annual rates based on seasonally adjusted data from Dept. of Commerce.
Unemployment rate: Monthly data, seasonally adjusted, from Dept. of Labor.

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buoyed in the first half of the year when households received unexpectedly large refunds of Federal income taxes.

The strong final demands in the United States and abroad bolstered the needs of manufacturers for a wide array of raw materials, and even though production of such materials increased sharply, demands often exceeded the available supplies. Thus, many producers of basic materials reached practicable capacity limits well before the over-all output potential of the U.S. economy came under strain. Inflationary conditions may have been heightened also by public response to the liberalization of the wage-price controls program early in the year. In retrospect, it appears that the move to Phase III of the program, though intended to provide needed flexibility to changing economic conditions, was widely viewed as a virtual ending of controls, and this attitude contributed to the bulge in prices that ensued.

Domestic economic stabilization policy could not have been expected to check fully these extraordinary forces of inflation. To have halted the acceleration in the over-all price rise—influenced so importantly, as it was, by sharply higher prices for food, fuel, and internationally traded industrial commodities—would have required exceptionally stringent measures, with potentially disastrous consequences for employment and economic activity. Public policies did move, however, to restrain the cumulative upward momentum in domestic economic activity—which had gained great force during the previous fall and winter—and to dampen inflationary forces stemming from the overheating.

Monetary policy, which had begun to tighten in late 1972, became progressively more restrictive through the summer of 1973. Thereafter, some actions were taken to moderate the intensity of monetary restraint. Fiscal policy also turned somewhat more restrictive in 1973, as the rise in public expenditures was curbed and the volume of tax receipts, produced by higher incomes and higher profits, grew more rapidly than outgo. And wage-price controls, reintroduced on a strict mandatory basis following the temporary price freeze in the summer, were directed toward developing and making more diffuse the price advances necessitated by continuing rapid increases in production costs.

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In the effort to avoid excessive monetary expansion during 1973 the Federal Reserve made use of all its instruments of monetary policy. Through much of the year open market operations were directed toward achieving adequate restraint on the growth in bank reserves and in the monetary aggregates. In the process the Federal funds rate moved from around 5.5 per cent at the beginning of the year to a high of nearly 11 per cent in September. In the late spring marginal reserve requirements were imposed on any expansion in certificates of deposits (CD's) and other money market sources of funds at large banks beyond the amounts outstanding as of mid-May, and such requirements were increased further in September. In early July reserve requirements were raised by ½ percentage point against the demand deposits (above a $2 million base) of all member banks. The Federal Reserve discount rate was raised, in successive steps, from 4½ per cent at the beginning of the year to 7½ per cent from August on, to keep the cost of borrowing more in line with market rates. And margin requirements on stock market credit, which had been increased to 65 per cent late in 1972, were kept at that level throughout 1973, despite a steady downward trend in the use of such credit.

As a result of these efforts, the growth in money and credit slowed markedly relative to the continuing expansion in domestic spending. The narrowly defined money stock (M_1),[1] even after revision in early 1974 to reflect unexpectedly large growth in deposits at nonmember banks, increased 6.1 per cent from the fourth quarter of 1972 to the fourth quarter of 1973. If measures of money are expanded to include consumer-type time and savings deposits at banks (M_2) and at other depositary institutions (M_3), the resulting growth rates are 8.8 per cent and 8.9 per cent, respectively. In each case these increases were well below the 11 per cent growth in the gross national product (and total domestic expenditures) over the same period, and also appreciably smaller than those recorded in 1972.

With significantly slower growth in money and continued rapid growth in total spending, interest rates were subject to marked up-

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

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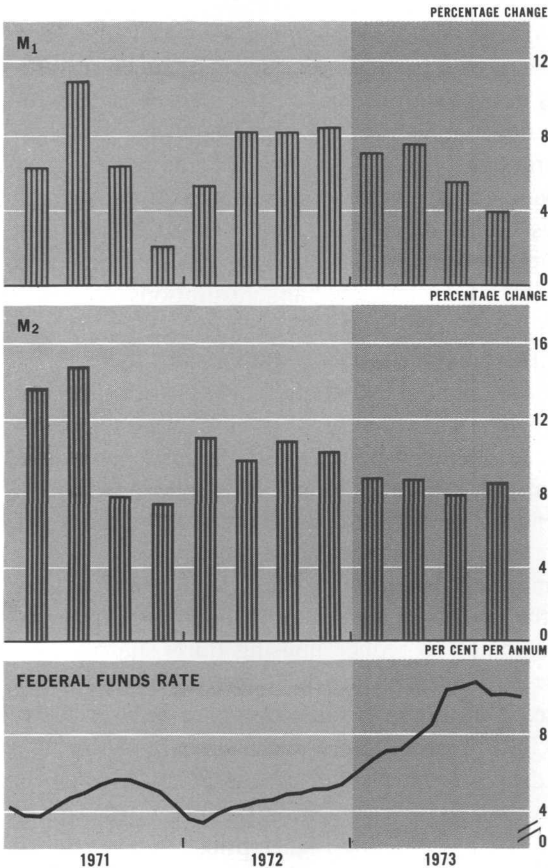
ward pressure over the first 9 months of the year. Short-term market rates, as represented by 3-month Treasury bills, rose by nearly 400 basis points from the 1972 year-end level, peaking out at just above 9 per cent in August. The interest rate charged by banks on their prime loans—those to large business customers with the highest credit rating—increased by a similar amount, from 5¾ per cent to

MONEY STOCK AND THE FEDERAL FUNDS RATE



NOTE.—Money stock, annual rates of growth calculated from daily-average figures for all 3 months of the quarter. Federal funds rate, monthly averages of daily figures. For definitions of M_1 and M_2, see notes to chart on p. 42.

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10 per cent. Long-term bond yields rose less dramatically but still substantially, by around 100 basis points. And yields on FHA and VA mortgages sold in the secondary market increased by about 150 basis points—to more than 9 per cent—before declining moderately in the closing months of the year.

Because of the sharp rise in market yields, savings flows began to shift increasingly into market instruments and away from the depositary institutions (where the interest rates that can be paid are constrained by regulatory ceilings). Accordingly, in early July the Board and other Federal regulatory agencies, after consultation, raised rate ceilings applicable to commercial banks, mutual savings banks, and savings and loan associations. In addition, these financial institutions were permitted to issue ceiling-free, 4-year time deposit instruments, so that they could compete actively for funds against high-yielding market instruments. This ceiling-free authority was withdrawn later, following congressional action that required the imposition of ceiling rates on all deposits of less than $100,000. But the array of rate ceilings applicable to the various types of time and savings deposits issued by banks and nonbank institutions remained significantly higher than it had been before midyear.

Partly as a result of these increases in maximum rates, deposit inflows to the institutions—though substantially slowed—dropped less drastically than during tight money periods in the 1960's. Nevertheless, and despite a liberal lending policy by the Federal home loan banks and support from the Federal National Mortgage Association and other Federal agencies, a marked contraction developed in the availability of mortgage credit and its cost rose sharply.

The tightening in mortgage credit, together with much higher prices for houses and the sustained high level of building during the two preceding years, combined to reduce housing starts sharply over the course of the year. Declining residential construction, however, was not the only source of weakness in the economic situation. New-car sales had begun to fall off even before the news of a prospective oil shortage, and they dropped sharply further thereafter. Growth in consumer spending for other goods declined on balance in real terms after the first quarter of 1973, reflecting higher prices and a gradual reduction in real take-home pay of the average worker. In the autumn the developing energy shortage, resulting from the embargo on

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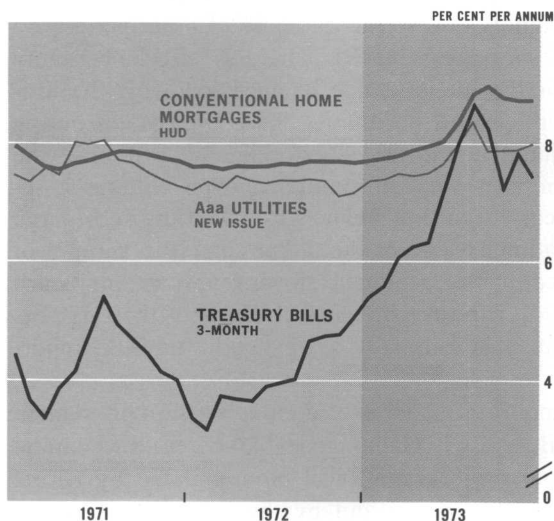
direct and indirect shipments of oil from the Middle East to the United States, created new uncertainties and new fears about continued economic stability both at home and abroad.

The result was a marked slowing in over-all economic growth as the year progressed. Expansion in real GNP moderated from an unsustainably high 8.7 per cent annual rate in the opening months of the year to an annual rate of about 3 per cent in the second and third quarters combined. This reflected not only the leveling off in consumer demands but also shortages in supplies of foodstuffs and raw materials and the limitations of capacity in some critical industrial sectors. In the fourth quarter real growth slowed further, to only about 1.5 per cent (annual rate). Growth in employment also slowed toward the end of the year, and the unemployment rate—which had declined through most of the year—began to rise.

In view of these developments monetary policy in the autumn began to back away from its earlier posture of substantial restraint. Open market operations became a little less restrictive, and interest

SELECTED INTEREST RATES



NOTE.—For notes see chart on p. 37.

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rates edged down in both long- and short-term markets. Savings flows to the depositary institutions improved as interest rates on market instruments were reduced, and the mortgage market eased in terms of both interest rates and the availability of funds. In December the Board reduced the marginal reserve requirement on CD's and other money market funds at large banks from 6 to 3 per cent, and in early January 1974 it cut margin requirements on stock market credit from 65 per cent to 50 per cent. The interest rate on Federal funds declined from its September high of nearly 11 per cent to about 9 per cent by February of 1974.

The move to a moderately less restrictive monetary policy was warranted by the leveling-off in the economic expansion and by the evidence of developing weakness in the economy caused by the oil shortage and other factors. But the continuation of rapid inflation and the persistence of serious supply shortages, not only in oil but also in many other product lines, counseled against any aggressive easing in policy.

In early 1974, weakness in economic activity appeared to be growing, dominated by a slowing in consumer expenditures for the goods and services most closely associated with the use of gasoline and oil products. This situation may worsen for a time; or the problem may wane, if consumers shift to the purchase of other goods and services, or if the oil shortage is eased. There is also uncertainty about the prospects for the foreign trade balance following the dramatic improvement in the export position of the United States during 1973. The quantum jump in the price of foreign oil will raise the Nation's bill for oil imports very substantially, even without a resumption of oil shipments from the Middle East. And the substantial recovery in the international value of the dollar since the autumn of 1973, along with indications of economic slowing abroad, may curb foreign demands for U.S. exports, though the effects of these factors on the trade balance may be offset by a weakening in U.S. import demands.

At the same time important sources of continuing support remain in the U.S. economy. Business is planning sizable increases in capital spending, and additional projects may well be stimulated by efforts to economize on the use of energy and by the evident need for a major effort to expand domestic capacity in the energy field and in

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other basic materials industries. Businesses generally have followed conservative inventory policies, and with many commodities still in very short supply, the ratio of stocks to sales remains close to its lowest level in many years. Residential building activity is likely to show some recovery later in the year from its present depressed state, as there is further improvement in the availability of mortgage money, materials, and labor.

The inflationary problems of the U.S. economy remain severe, however. Prices of materials—not only of oil but also of many other commodities—have continued to rise at a rapid pace. And many shortages remain that are capable of disrupting production schedules and deliveries. Moreover, the rise in unit labor costs has accelerated in recent quarters as increases in wage rates have been substantial and gains in productivity have come to a halt.

The outlook for inflation is not entirely bleak, however. Adjustments in relative prices of the dimensions witnessed over the past year should not be expected to continue indefinitely, since the effect of the higher prices is to induce larger output and constrain demand. In the case of oil and other fuels, the price response to shortage conditions may still have some distance to go. In other areas, however, the outlook seems more promising. Agricultural output has been rising, and crop yields around the world generally appear to have been much more favorable in 1973. The upsurge in international demand for industrial raw materials shows clear signs of moderating, and the dollar has strengthened again in foreign exchange markets. In any event, lasting improvement in supply conditions for foods and other raw materials will be dependent on long-run structural processes that encourage increases in investment, output, and efficiency in these sectors and economy in the use of their product.

The job for monetary policy—and for economic stabilization policy generally—therefore, is to steer a course that will not exacerbate present and prospective inflationary forces, but at the same time will avoid an unacceptably severe or extended weakening in economic activity that might develop from the energy crisis. Given the many uncertainties that confront the economy, this is not likely to be an easy task. Monetary policy, however, is by its nature a flexible and adaptive instrument that can be shaped promptly to the Nation's emerging economic needs.

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Demands for Goods and Services

1973 was a year of dramatic developments in the nonfinancial sector of the economy. For the year as a whole, GNP in current dollars increased by about 11.5 per cent, but higher prices accounted for nearly half of this rise. The increase of 6 per cent in real GNP was about the same as in 1972. But after reaching exceptionally rapid and unsustainable rates in late 1972 and the first quarter of 1973—averaging about 8.5 per cent per year—growth in real terms slowed abruptly. In the fourth quarter it was down to an annual rate of about 1.5 per cent.

The rapid pace of expansion early in the year was broadly based among consumers, business, foreign trade, and government. The subsequent slowing was attributable in part to the emergence of severe pressures on supplies of many major materials, which acted to limit output increases in key demand sectors. Output of materials was ap-

Table 1: GROSS NATIONAL PRODUCT

Type of measure	1971	1972	1973	1973[1]			
				I	II	III	IV
	In billions of dollars						
Current dollars	1,056	1,155	1,289	1,243	1,272	1,305	1,338
1958 dollars	745	791	837	829	834	841	845
	Percentage change from preceding period (at annual rates)						
Current dollars	8.0	9.4	11.6	15.2	9.9	10.6	10.5
1958 dollars	3.2	6.1	5.9	8.7	2.4	3.4	1.6
Implicit deflator	4.7	3.2	5.4	6.1	7.3	7.0	8.8

[1] Quarterly data are seasonally adjusted annual rates.
NOTE.—Dept. of Commerce data.

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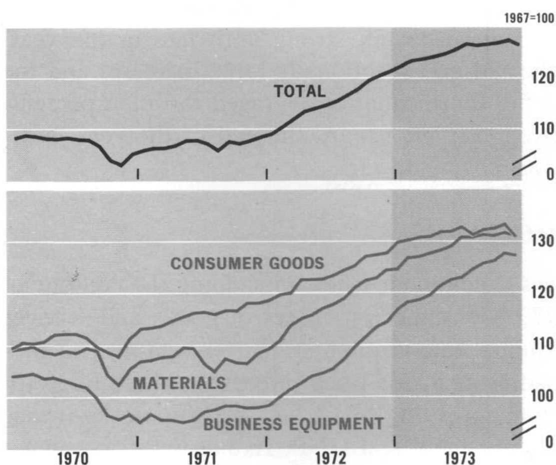
proaching practicable capacity limits by late spring, with capacity utilization rates for major materials industries reaching their highest levels since World War II. These pressures on capacity, and the related tightness of supplies, were maintained throughout the remainder of the year. The moderation of expansion in aggregate real output during 1973 was broadly paralleled by a slowing of growth in industrial production—to an annual rate of little more than 1 per cent in the fourth quarter, from a 10 per cent rate in the first quarter.

Although supplies and capacity in a number of industries were subject to severe strains in 1973, demands in some important sectors moderated over the course of the year. In particular, the volume of consumer real purchases slowed after an extraordinarily large increase in late 1972 and early 1973. Toward the close of the year—when the oil shortage began to affect output and employment adversely, both directly and through its effects on expectations—sales of large-size automobiles in particular were sharply reduced. Purchases of fuel and some services were also down, and for the fourth quarter as a whole total consumer purchases in real terms declined. Another factor contributing importantly to the over-all slowing in

INDUSTRIAL PRODUCTION



NOTE.—Federal Reserve indexes, seasonally adjusted.

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real growth was a sharp drop in residential construction activity in the second half of the year.

In contrast, business demands for fixed capital were strongly expansive throughout the year. In fact, business equipment was the only major category of industrial production that increased virtually throughout 1973. But here too there were indications late in the year of a slowing in the rate of expansion, in part because of supply factors. And until late in 1973, supply constraints held inventory investment at exceptionally low levels for a period of cyclical expansion.

A major feature of 1973—and one that contributed materially to over-all expansion—was a turnaround in net exports of goods and services to surplus from a sizable deficit in 1972. Merchandise exports increased much faster than did imports, stimulated by strong demand conditions in Western Europe and Japan, by crop shortfalls in some countries, and by the decline in the value of the U.S. dollar in foreign exchange markets.

Pressures on industrial resources, tight supplies of farm products and other materials, strong demands abroad, and the oil crisis combined to intensify inflationary pressures. Increases in unit labor costs were also an important factor in the price rise, as gains in productivity came to a halt after the first quarter of the year while increases in average compensation per employee rose faster than they had in 1972.

Demands for labor continued very strong until late in the year. Payroll employment showed an exceptionally large increase, and the unemployment rate in the fourth quarter averaged 0.6 of a percentage point less than a year earlier; toward the end of the year, however, unemployment was moving upward.

CONSUMER PURCHASES

Consumer spending was a dominant factor in shaping the contour of GNP expansion in 1973. Consumer purchases of goods and services rose to a 15 per cent annual rate in the first quarter—equivalent to a 9 per cent rate after adjustment for price increases. These large increases were major influences in the strong first-quarter advance shown in both current-dollar and real GNP. Expansion in consumer spending slowed thereafter—to an annual rate averaging close to 10

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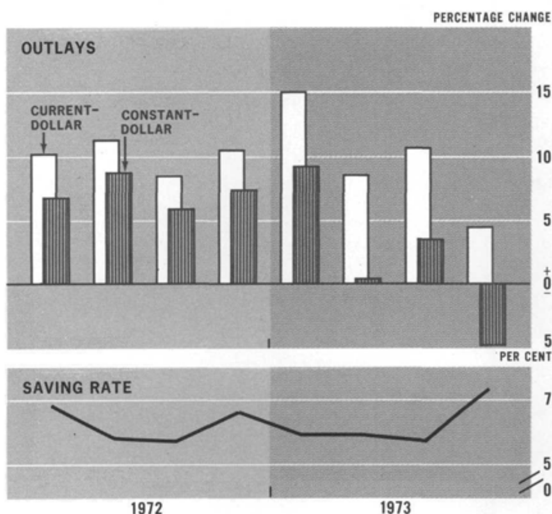
per cent for the second and third quarters, and then to 4.5 per cent for the fourth quarter. Moreover, continued price advances largely eroded these increases. For the year as a whole, however, real consumer purchases increased by 5 per cent following a 6 per cent rise in 1972.

The first quarter of 1973 was characterized by exceptionally strong advances in consumer purchases of both durable goods and nondurable goods. Continuation of the housing boom provided an impetus to sales of furniture and appliances. In addition, unit sales of new autos (domestic and foreign) reached a record 12¼ million annual rate. A sharp increase in purchases of nondurable goods reflected in part an acceleration in food prices, but sales of some other items—such as apparel—rose even faster in both current dollars and real terms.

Outlays for both durable and nondurable consumer goods were

CONSUMER OUTLAYS AND SAVING RATE



NOTE.—Outlays: Changes from preceding quarter based on quarterly data at seasonally adjusted annual rates; constant-dollar changes are based on 1958 dollars. Saving rate is personal saving as a percentage of disposable personal income. All data are from Dept. of Commerce.

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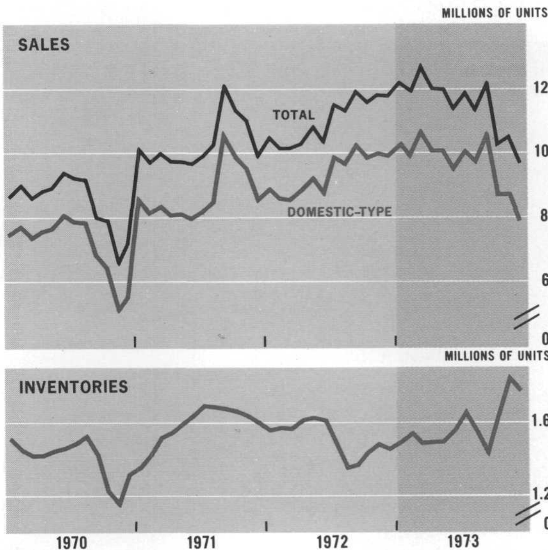
maintained at relatively high levels during the second and third quarters. Auto sales eased somewhat, however, and there was some decline in real purchases of food, reflecting in part sharply rising prices and the reduced availability of meat. Expenditures on services continued to increase throughout the first three quarters in both current and constant dollars.

An outright decline—at an annual rate of close to 5 per cent—in real consumer purchases in the fourth quarter, following the earlier marked slowing, was attributable for the most part to emerging energy developments. Consumers cut back their purchases of new automobiles to an annual rate of 10 million units, off considerably from the 11.7 million rate of the second and third quarters; smaller models were in strong demand, but dealers' stocks of large cars mounted. Real purchases of gas and oil also declined, reflecting the administration's conservation program and rising prices.

AUTOS



NOTE.—Sales: Monthly data at annual rates, seasonally adjusted by Federal Reserve; domestic-type includes sales in the United States of cars produced in Canada. Inventory data, seasonally adjusted, are for domestic-type cars only. Sales, from Ward's *Automotive Reports*; inventories, from Motor Vehicles Manufacturers Association.

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Contributing to the upsurge of consumer demands in early 1973 were large gains in employment and wages, as well as the anticipation of unusually large refunds of personal income taxes during the first half of the year, resulting from a step-up in withholdings in 1972. Strong growth in income helped to provide the basis for a sharp increase in spending financed with instalment credit. The large increase in social security benefits in late 1972 also stimulated consumer spending to some extent.

Although consumer attitudes became more pessimistic as the year progressed, consumer spending kept pace with the increase in nominal income in the middle two quarters, and the saving rate remained close to the 5.9 per cent rate of the first quarter. With consumer demands weakening appreciably in the fourth quarter, the saving rate rose sharply to more than 7 per cent.

RESIDENTIAL CONSTRUCTION

Outlays for private residential construction, which had advanced steadily since mid-1970, peaked early in the first half of 1973 and fell sharply in the fourth quarter. The decline reflected a slowing of demands in response to sharply higher interest rates and less favorable nonrate mortgage terms as well as to a substantial further rise in the costs of houses. The tightening of credit terms was particularly evident after midyear as inflows of funds to mortgage lending institutions were adversely affected by high yields on competitive investments. For the year as a whole, however, construction outlays were down only slightly from the 1972 total in real terms and were 7.5 per cent higher in current dollars.

Private housing starts held at a near-peak seasonally adjusted annual rate of 2.4 million units in the first quarter; after that they declined rapidly to an annual rate of less than 1.6 million units in the fourth quarter. For the year the number of starts totaled around 2 million units, about the same as in 1971 but down appreciably from the record 2.35 million in 1972. Multifamily structures, including an increased number of condominiums, accounted for nearly 45 per cent of total starts in 1973. The continued relatively high proportion of multifamily units was in part a response to further advances in costs, especially for land and for building materials.

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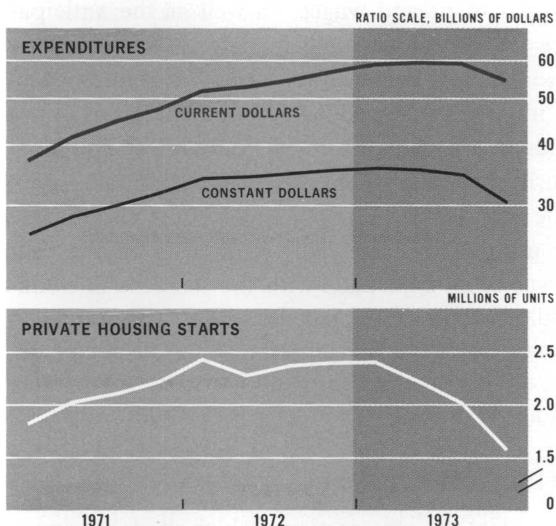
RESIDENTIAL CONSTRUCTION



NOTE.—Expenditures: Dept. of Commerce data at seasonally adjusted annual rates; constant-dollar series is in terms of 1958 dollars.
Housing starts: Quarterly averages based on monthly figures at seasonally adjusted annual rates from Dept. of Commerce.

Nonsubsidized starts, which include larger and more expensive units, accounted for more than 90 per cent of the private residential total—an appreciably higher figure than in other recent years. Federally subsidized starts—new commitments for which remained largely under a moratorium instituted early in the year—were reduced to the lowest level since 1968. Domestic shipments of new mobile homes, which are not included in residential outlays or housing starts even though they provide living accommodations, dropped considerably through 1973 after reaching a peak in the first quarter. Nevertheless, the annual total of mobile home shipments was slightly above the previous record of 576,000 units in 1972.

Mortgage markets tightened markedly through the summer of 1973. Although interest rates in such markets showed some easing during the fourth quarter, they still remained at historically high levels and continued to be a deterrent to new building and to sales of old houses—particularly in States with relatively low usury ceilings.

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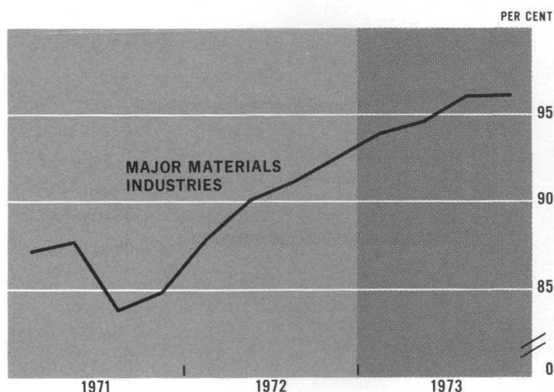
By late in the year, moreover, the energy crisis had raised new questions about methods of heating and the adequacy of transportation —creating uncertainties for the future plans of lenders, builders, and potential home-buyers alike.

BUSINESS FIXED INVESTMENT

Business fixed investment continued to provide strong support to the economy during 1973. For the year as a whole, such investment rose 15 per cent in current dollars and about 10 per cent in real terms. Both major categories of investment—equipment and construction —recorded current-dollar increases of about 15 per cent over their 1972 levels. Replacement needs and net expansion each continued to absorb about one-half of total outlays.

Many producers, after having added little to their capacity in recent years, approached capacity constraints during the year. This was particularly true of such major materials industries as steel, cement, petroleum, and paper and was a significant stimulus to investment. A strong corporate cash flow, a continued stimulus from the investment tax credit, and a heightening of inflationary expectations also contributed to the increase in such spending. Had it not been for materials shortages—caused in part by increased demands from abroad

CAPACITY UTILIZATION RATE



NOTE.—Average output of major materials industries, seasonally adjusted, as a percentage of their potential capacity output. Federal Reserve data.

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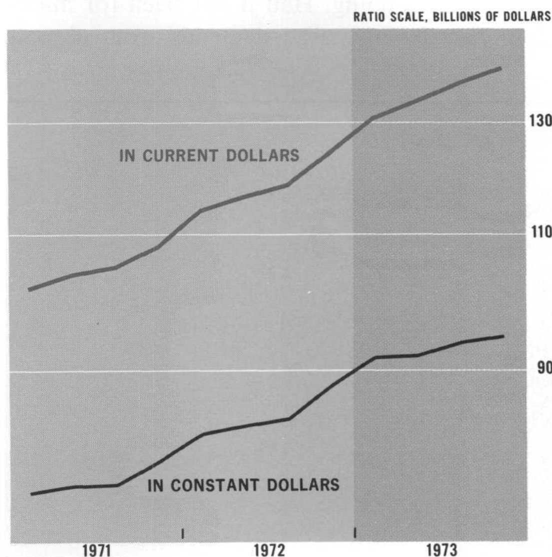
and efforts on the part of domestic users to shift back to domestic sources—capital spending probably would have shown an even greater increase, as suggested by the fact that throughout the year actual spending consistently fell short of earlier anticipations.

Plant and equipment expenditures rose much faster in manufacturing industries than in the nonmanufacturing sector, in contrast to the pattern in 1972. Many manufacturers, particularly major materials producers, increased outlays so that they could meet the strong demands for their products and also bring production facilities up to the standards required by environmental regulation. Investment was very strong for the primary metals, paper, and stone, clay, and glass industries. Outside of the manufacturing sector, mining and public utilities registered the strongest increases.

Toward the end of the year various surveys of plant and equipment spending all pointed to sizable further increases in such spending during 1974, with manufacturers expected to continue the strong

BUSINESS FIXED INVESTMENT



NOTE.—Dept. of Commerce data at seasonally adjusted annual rates. Constant-dollar investment is in terms of 1958 dollars.

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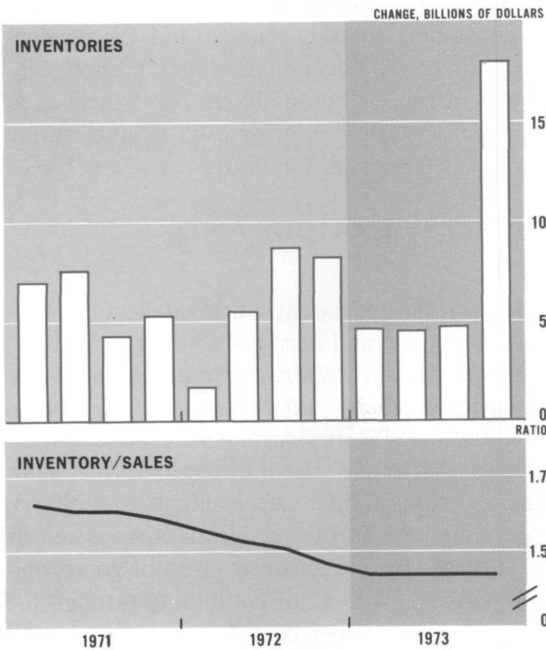
advance of 1973. However, the surveys were conducted before the impact of the energy shortage could have been fully reflected in business plans. Accordingly, as 1974 unfolds, further revisions in plans are likely; some will be to take account of the availability and cost of energy supplies, while others will be to meet the needs for increased domestic energy output.

INVENTORIES

Inventory investment, which usually shows strong increases in a cyclical recovery, remained very modest during the first three quarters of 1973, averaging an annual rate of only $4.5 billion as measured in

BUSINESS INVENTORIES AND SALES



NOTE.—Inventory change (NIA), quarterly data at seasonally adjusted annual rates, from Dept. of Commerce.
Inventories/sales ratio, based on Dept. of Commerce seasonally adjusted data—end-of quarter book value for inventories, and quarterly averages of monthly data for sales—for manufacturing and trade establishments.

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the national income accounts (NIA). Increases in the book value of inventories were much larger than the increases as measured on the NIA basis; the difference reflected the very large inventory valuation adjustments resulting from the sharp and widespread price increases during the period. The dollar volume of sales advanced even more rapidly than the book value of inventories, however, and the inventory/sales ratio reached its lowest level since early in the Korean war.

Inventory accumulation was held to a low rate during most of the year mainly by the influence of strong final demands and shortages of major materials. Stocks of finished goods, for instance, were drawn down in the primary metals and chemical industries; and unfilled orders rose by exceptional amounts in many industries.

In the fourth quarter of 1973, inventory investment accelerated to an annual rate of $18 billion. The step-up in inventory accumulation appears attributable for the most part to the slowing of final demands—particularly by consumers for large autos, and for residential construction. A large part of the accumulation was probably involuntary, notably for new large-size automobiles. Nevertheless, at the end of the year the inventory/sales ratio for total manufacturing and trade remained quite low by historical standards.

EXPORTS AND IMPORTS OF GOODS AND SERVICES

The U.S. balance of trade position underwent a dramatic transformation during 1973. Exports of goods and services rose by around 40 per cent from the previous year, while imports were up about 25 per cent. As a result the balance on goods and services shifted from a deficit of close to $4.5 billion in 1972 to a surplus of around $6 billion in 1973. Net exports, which had risen throughout the year, jumped in the fourth quarter to an annual rate of about $13 billion, reflecting some special developments in the services sector as well as an improved U.S. trade position. In real terms, exports of goods and services rose by about 20 per cent, with gains continuing through the year. Real imports rose by less than 5 per cent, but after reaching a peak in the first quarter they drifted down. While the favorable trade balance contributed to expansion of the economy in 1973, it also

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added to inflationary pressures by placing further demands on already hard-pressed domestic capacity as well as on domestic supplies of farm products and industrial products; in addition, the prices of imports increased appreciably.

The turnaround in foreign trade reflected both the strong economic expansion in Western Europe and Japan and the cumulative effects of the depreciation of the dollar in terms of foreign currencies. Expansion in exports was sharpest for agricultural products, which were strengthened in part by widespread crop failures abroad. But exports of nonagricultural products also rose sharply in both current dollars and real terms. By year-end the value of the dollar had risen substantially from its midyear low in terms of foreign currencies. And large increases in the dollar value of imports were in prospect because of sharp advances in petroleum prices.

FEDERAL GOVERNMENT

After registering a deficit of nearly $16 billion in calendar year 1972, the Federal budget (NIA basis) moved into balance in the spring of 1973 and then into surplus in the second half of the year. This shift was the result both of curbs on increases in expenditures and of large revenue gains generated by rising incomes and prices.

Federal purchases of goods and services, which enter directly into the GNP, rose by about 2 per cent in 1973, less than half as much as in the previous year. In real terms, purchases declined about 6 per cent, as outlays for national defense dropped sharply. Nondefense purchases, which are much smaller in dollar terms, rose less than in 1972. An increase in total Federal grants-in-aid to State and local governments reflected the fact that general revenue sharing, introduced in the latter part of 1972, was in effect for all of 1973; other grant-in-aid programs declined somewhat. A moderate increase in wages and salaries paid by the Federal Government reflected higher pay scales; during the year there was a slight decline in the Federal civilian work force as a result of sharp cutbacks of civilian employment in the Department of Defense.

Federal receipts rose by about $37 billion in 1973, compared with $30 billion in 1972. Corporate profits tax accruals were up more than 30 per cent for the year, although they changed little after the

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Table 2: CHANGES IN MAJOR COMPONENTS OF GROSS NATIONAL PRODUCT

In billions of dollars

Item	1971	1972	1973	1973[1] I	II	III	IV
GNP	**78.4**	**99.7**	**133.9**	**43.3**	**29.5**	**32.5**	**33.0**
Personal consumption expenditures	**49.6**	**59.3**	**77.5**	**26.8**	**16.2**	**20.4**	**9.2**
Durable goods	12.3	13.8	13.4	9.3	.6	.0	−7.2
Nondurable goods	14.9	21.2	36.0	11.5	8.1	11.3	8.0
Services	22.3	24.3	28.1	6.0	7.6	9.0	8.4
Saving rate (level in per cent)	*8.1*	*6.2*	*6.2*	*5.9*	*5.9*	*5.7*	*7.3*
Fixed investment	**15.4**	**25.2**	**21.9**	**8.7**	**3.8**	**3.6**	**−1.4**
Residential structures	11.5	11.3	4.0	2.1	.6	− .4	−5.2
Nonresidential	3.8	13.8	18.0	6.6	3.2	3.9	3.8
Inventory change	**1.6**	**− .1**	**2.0**	**−3.6**	**− .1**	**.2**	**13.3**
Net exports of goods and services	**−2.8**	**−5.4**	**10.4**	**3.5**	**2.8**	**4.8**	**5.2**
Exports	3.4	7.2	28.5	10.0	7.5	7.3	11.9
Imports	6.2	12.6	18.1	6.5	4.7	2.6	6.6
Govt. purchases of goods and services	**14.8**	**20.7**	**22.1**	**7.9**	**6.7**	**3.7**	**6.6**
Federal	1.9	6.3	2.2	2.8	1.8	− .5	.0
Defense	−3.0	2.8	− .5	1.9	− .1	.0	−1.2
Other	4.9	3.6	2.6	.9	1.9	− .4	1.1
State and local	12.9	14.3	20.0	5.0	5.0	4.2	6.6

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

second quarter. Contributions for social insurance recorded similarly large increases, in part because of an increase in tax rates. Personal tax receipts and indirect business taxes, however, showed only moderate growth. In 1972, personal tax receipts had been boosted because of substantial overwithholding.

STATE AND LOCAL GOVERNMENTS

State and local government expenditures continued to be strongly expansive in 1973, rising by about 13 per cent. In real terms the increase was about half of that. Employee compensation and purchases of goods and services accounted for the major portion of the increase. Employment rose by nearly 400,000, a smaller advance than that recorded in 1972. This smaller growth reflected a reduction in the number of State and local employees hired under provisions of the Public Employment Act. State and local construction expendi-

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tures were up by 8 per cent in 1973, but most of this was the result of increased prices.

During 1973 the States and localities combined recorded a budget surplus of $11 billion, $2 billion less than in 1972. Federal general revenue sharing helped these governments to maintain a strong fiscal position in 1973 and at the same time to reduce substantially the amount of their long-term borrowing. Furthermore, it provided funds that were used for tax relief, a trend that is expected to continue in 1974.

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Employment and Wages

Labor markets continued to tighten through most of 1973. Strong demands for workers were associated with a rapid expansion in employment and a moderate decline in unemployment. Near the year-end, however, a slowdown in production and the onset of the energy crisis resulted in layoff announcements in automobiles, airlines, and hotels and in a number of related industries. Growth in over-all employment slowed, and there was a rise in the unemployment rate.

The civilian labor force expanded sharply in 1973 in response to the generally strong demands for labor. The increase of 2.7 million during the year compares with 2 million in 1972 and an anticipated normal growth of 1.6 million, based on long-term demographic and participation-rate trends. Most significant in the sharper rise in 1973 was a speed-up in the number of women 25 to 54 years of age in the labor force. The need to increase family income to help maintain real incomes in the face of sharply rising prices was a factor in this trend, as was the strong demand for labor. Labor force increases for most other groups were at about the same pace as in 1972—with continued large increases among teenagers and young adult women.

During the first part of the year gains in total employment about matched the large increases in the labor force, and the unemployment rate remained at about 5 per cent. In the spring and early summer, labor force growth slowed a little and the unemployment rate declined somewhat. In October the rate was 4.6 per cent, the lowest in 3½ years. Declines were evident among most labor force groups. The unemployment rate for white workers edged down to 4.2 per cent in the fourth quarter. Employment gains were also substantial among black workers during 1973, and the jobless rate for such workers declined to 8.6 per cent as compared with 9.9 per cent a year earlier. Even so, over-all jobless rates remained well above those that had been recorded during the period of extremely tight labor markets from 1966 to 1969. Near the end of 1973 the unemployment rate began to edge up as demand for labor slackened and layoffs increased; and in January 1974 there was a further substantial rise.

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LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

NOTE.—Seasonally adjusted data from Dept. of Labor.

The rapid increase in nonfarm payroll employment in 1973 continued an expansion that had begun in the fall of 1971; the total rose by 2.7 million over the four quarters of 1973—about the same increase as during the preceding year. The employment advance was led by a vigorous increase—of three-quarters of a million—in manufacturing jobs, which brought factory employment back close to the peak level reached in mid-1969. The rise in manufacturing employment was particularly rapid in the first half of 1973. Gains were concentrated in those industries most affected by strength in materials output and business investment. But as production slowed in the latter half of the year, the pace of the increases in manufacturing employment also moderated and the factory workweek edged off from the relatively high level reached earlier in the year.

Employment growth was also strong in nonindustrial activities in 1973. In services, finance, and trade the total number employed rose by 1.3 million, slightly more than during 1972. Federal civilian employment edged off, continuing the downtrend that had begun in

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1970. State and local governments increased their payrolls substantially over the four quarters of 1973 but at a slower pace than in the preceding year.

In response to tightened labor markets as well as rising prices, wages increased at a somewhat faster pace in 1973 than in 1972. The increase was appreciably more rapid after the first quarter than earlier. Thus, the adjusted hourly earnings index—the measure that most closely approximates average changes in wage rates—increased by an average 7.5 per cent over the last three quarters compared with about 5.5 per cent over the preceding five quarters. Gains in money wage rates were eroded by accelerating prices and higher social security taxes; the purchasing power of weekly take-home pay was 3 per cent less at the end of 1973 than a year earlier.

Table 3: CHANGES IN AVERAGE HOURLY EARNINGS INDEX

Seasonally adjusted annual rates, in per cent

Industry	Aug. 1970–Aug. 1971	Aug. 1971–Jan. 1972	Jan. 1972–Mar. 1973	Mar. 1973–Dec. 1973	1972 QIV–1973 QIV
Total private nonfarm	**6.9**	**6.5**	**5.6**	7.4	**6.7**
Mining	6.7	9.5	5.2	9.4	7.8
Construction	7.8	6.5	5.5	7.9	6.7
Manufacturing	6.5	6.3	5.4	7.1	6.6
Transportation and public utilities	8.7	11.6	9.2	7.6	7.7
Wholesale and retail trade	5.9	5.4	5.0	7.0	6.8
Finance, insurance, and real estate	6.9	4.8	4.0	8.2	5.8
Services	7.4	6.9	4.7	6.9	6.1

NOTE.—Average hourly earnings of private nonfarm production and supervisory workers, adjusted to exclude effects of shifts of workers among industries and fluctuations in overtime premiums in manufacturing. Basic data from Dept. of Labor.

Contract bargaining activity was heavy in 1973 with about 4¾ million workers affected in many of the key, pattern-setting industries. In the environment of accelerating price increases, new or improved cost-of-living clauses became a major bargaining issue. Negotiations also focused on substantial gains in fringe benefits—particularly on early retirement, higher pension payments, and increased medical coverage.

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Prices, Labor Costs, and Profits

Inflationary pressures were exceedingly strong in 1973, with prices showing the largest sustained increases since 1946. The fixed-weighted price index for private GNP—a broad measure of price change—increased almost 8 per cent from late 1972 to late 1973, more than double the increase over the preceding year, and wholesale and consumer prices rose at close to record rates. Strong demands in this country and abroad exerted extraordinary pressures on supplies. World supplies of foodstuffs were short, and industrial activity rose to very high levels in Western Europe and Japan, generating strong demands for U.S. exports and high prices for imports—a situation aggravated by the decline in the value of the dollar relative to other currencies. In this country, unit labor costs rose much faster than in 1972. Supplies of livestock products declined, and shortages of materials were acute throughout 1973. Late in the year the embargo on oil shipments to the United States by Middle East producers precipitated a crisis, and prices of petroleum and products began to rise sharply.

Prices of raw materials soared in 1973, reflecting a business boom of worldwide proportions. Spot prices of raw industrials rose nearly 60 per cent after an increase of about 25 per cent in 1972, with especially large increases for nonferrous metals, steel scrap, and cotton. The cost of many semiprocessed materials, such as chemicals, textiles, and paper, also rose rapidly as operations neared the upper limits of plant capacity. Wholesale prices of finished goods rose less rapidly than did materials until an upsurge in prices of petroleum products in the fourth quarter brought the increase for the year for nonfood finished goods to about 15 per cent.

Unit labor costs exerted increasing pressure on prices in 1973. In the fourth quarter such costs in the private nonfarm sector were 7 per cent above their late 1972 level, compared with an increase of only about 2.5 per cent during the preceding year. Failure of productivity to grow in the private nonfarm economy was the major factor in the acceleration of labor costs. Growth in output per manhour came to a standstill in the second and third quarters, as the

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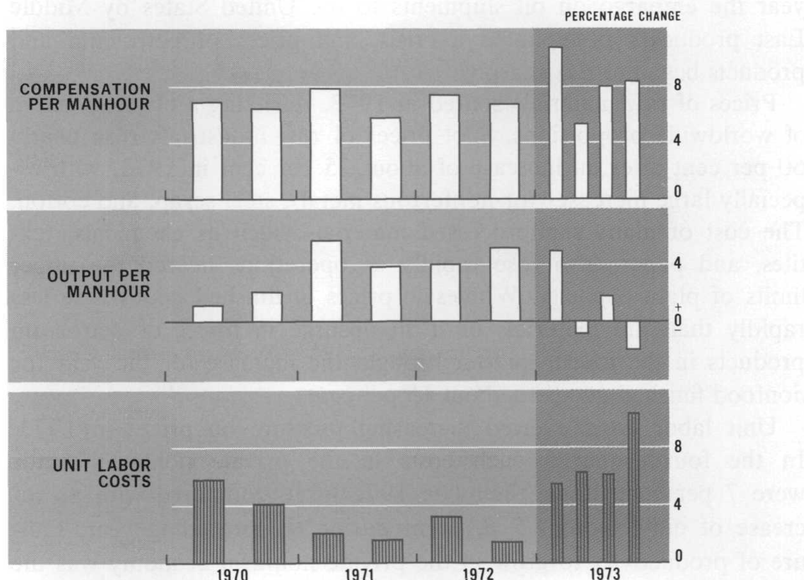
expansion of real output slowed in the private nonfarm sector, and in the final quarter there was an actual decline in productivity. Altogether, growth in productivity amounted to only 1 per cent from late 1972 to late 1973. But in addition, growth in compensation per manhour increased somewhat, from about 7 per cent during 1972 to 8 per cent in 1973, in part because of increased costs to employers from higher social security taxes.

Part of the rise in prices in 1973 also reflected widening profit margins. Corporate profits before taxes rose rapidly in the first half of 1973, to an annual rate almost one-third above the 1972 level. Then they leveled off. A good part of the gain in reported profits reflected the increased value of inventories resulting from sharply rising prices. Adjusted for inventory valuation, the estimated rise for the year 1973 was 20 per cent. The share of profits adjusted for inventory valuation in the value of output of nonfinancial corporations im-

LABOR COMPENSATION, PRODUCTIVITY, AND COSTS



NOTE.—Annual rates of change for the private nonfarm economy; changes are from preceding half year or quarter and are based on seasonally adjusted data from Dept. of Labor.

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proved slightly during the year. Nevertheless, it was less than it had been in 1969 and was considerably smaller than in years prior to 1969.

Table 4: PROFITS OF NONFINANCIAL CORPORATIONS

Share of value of product, in per cent

Item	1969	1971	1972	1973[1]
Product originating	100.0	100.0	100.0	100.0
Profits before tax[2]	12.5	10.7	11.1	11.7
Other charges against product	*87.5*	*89.3*	*88.9*	*88.3*
Compensation of employees	65.7	65.9	66.2	66.3
Interest	2.5	3.0	2.8	2.8
Indirect taxes[3]	9.3	9.9	9.5	9.2
Capital consumption allowances	9.9	10.5	10.4	10.0
Addendum: Profits plus capital consumption allowances	22.4	21.2	21.4	21.7

[1] Preliminary.
[2] Including inventory valuation adjustment.
[3] Including transfer payments to persons less subsidies received.
NOTE.—Dept. of Commerce data.

FIRST-HALF PRICE DEVELOPMENTS

The first half of the year began with a liberalization of Phase II price controls in early January and ended with a price freeze in June. The sharp price rise in this period was led by an extraordinarily rapid increase in wholesale prices of farm products and foods—a seasonally adjusted annual rate of almost 50 per cent from December to June. Prices of crops reacted to a rapid rise in the volume of exports of wheat, corn, and soybeans—which brought stocks in this country down to exceedingly low levels. Livestock prices also rose very sharply, for the most part in response to declining supplies.

In order to restrain rapidly rising meat prices, ceilings on red meat were imposed at the end of March for processors and distributors. This slowed the increase for meats, but food prices as a whole continued to rise very fast until a general freeze was put into effect in June. Unfortunately, price controls and the steep further climb in prices of feeds and feed grains, which had begun in late 1972, contributed to the drop in supplies of livestock and also of poultry, eggs, and milk.

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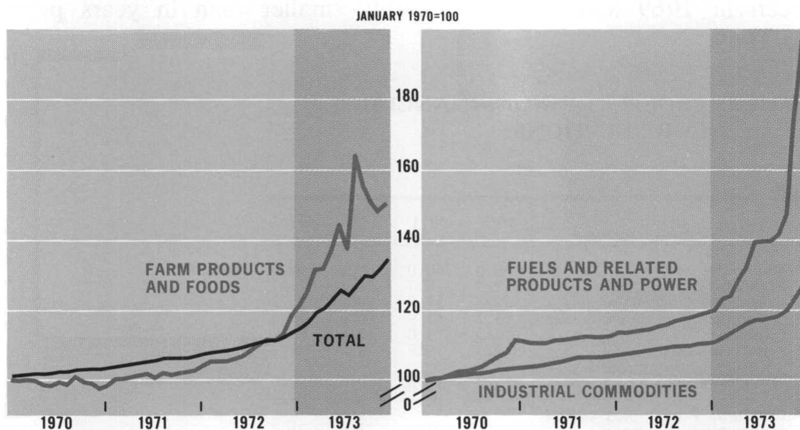
WHOLESALE PRICES



NOTE.—Based on seasonally adjusted indexes from Dept. of Labor.

At the same time the rate of increase in prices of industrial commodities was accelerating to an annual rate of almost 13 per cent; this contrasts with an increase of only 3.6 per cent for all of 1972. The acceleration in 1973 followed the introduction of Phase III price control regulations in early January. A temporary and short-lived bulge in prices had been expected—to correct some of the distortions that had arisen under Phase II—but as the months progressed, price advances showed no indications of slowing.

The underlying factors responsible for the stepped-up pace of the increase in industrial prices were much more fundamental than relaxation of controls. As noted earlier, one important influence was that the value of the dollar depreciated further in terms of other major currencies to a level more than 20 per cent below its May 1970 value. In addition, a more rapid rate of price increase abroad than in this country was helping to make U.S. exports generally more competitive in world markets while raising the dollar price of imports. This shift in relative prices affected all traded commodities, but it was most notable for materials costs, which soared in dollar terms in response both to the drop in the foreign exchange value of the dollar and to strong world demands.

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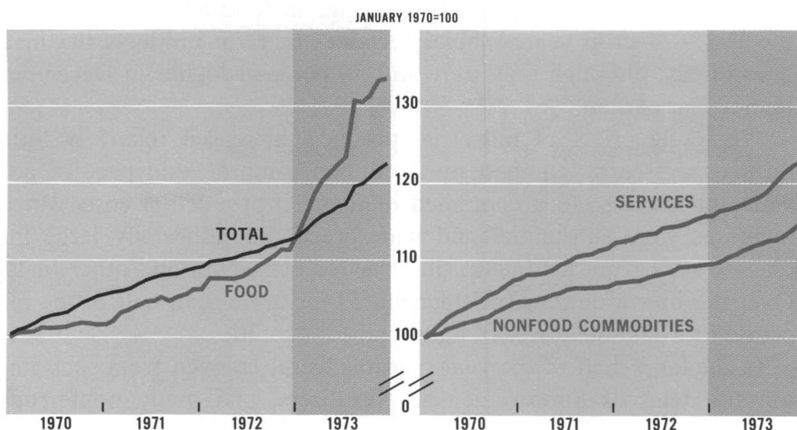
CONSUMER PRICES



NOTE.—Based on seasonally adjusted indexes from Dept. of Labor.

The rise in consumer prices also accelerated in the first half of 1973, reaching an annual rate of 8 per cent. Food prices, rising at an annual rate of more than 20 per cent, contributed most to the speed-up. The rise in prices of nonfood commodities, however, was also faster than in 1972.

SECOND-HALF PRICE DEVELOPMENTS

In an effort to brake the surge in prices, a general price freeze of 60 days was imposed in mid-June; the only exemptions among domestic prices were rents and farm products at the initial point of sale. The freeze in retail prices tended to hold down prices at the farm level, and a profit squeeze on producers developed when feed and other costs continued to rise. To avoid disruptions in supply, the freeze on prices of food was relaxed in mid-July to allow retailers and distributors to pass through to consumers the higher cost of commodities at the farm level (except for beef). Prices of livestock and meat rose dramatically after this move. At the same time world shortages were causing a further upward surge in prices of wheat, corn, and soybeans. Between mid-July and mid-August the increase in prices of farm products was the most rapid since World War I.

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Between mid-August and December the onset of favorable harvests removed fears of a serious shortage in food and feed grains in the 1973–74 crop year. Wholesale prices of farm products declined accordingly, although they were still 36 per cent higher in December than a year earlier.

Wholesale prices of industrial products increased relatively little during the freeze, but thereafter resumed a more rapid pace of advance in response to a continued increase in production costs. Price increases were substantial and widespread, but especially large increases were recorded late in the year for petroleum and other fuels. Over the fourth quarter fuels accounted for more than half of the increase in wholesale prices of industrial commodities.

In the latter half of the year controls were removed from such important items as lumber, cement, fertilizers, and many nonferrous metals and from new autos following an agreement with major producers to limit increases during the 1974 model year. In early 1974 controls were removed from some other items and the administration indicated that it planned to permit price and wage controls to lapse after the April 30 expiration date of the enabling legislation—except for health care and petroleum. But the administration also indicated its intention to make additional exceptions if conditions warranted.

Consumer prices meanwhile increased at an annual rate of 9.6 per cent in the second half of the year, with retail prices of foods again

Table 5: PRICE CHANGES

In per cent

Series	Dec. 1970– Dec. 1971	Dec. 1971– Dec. 1972	Dec. 1972– Dec. 1973	1973 (Seasonally adjusted annual rates)			
				Dec.– Mar.	Mar.– June	June– Sept.	Sept.– Dec.
Wholesale prices, total	4.0	6.5	18.2	21.1	23.4	13.2	15.5
Industrial commodities	3.2	3.6	14.8	10.2	14.9	4.5	31.3
Farm products	8.1	18.7	36.1	77.3	61.0	67.3	−28.1
Processed foods and feeds	4.7	11.6	20.3	37.1	31.9	14.8	1.3
Consumer prices, total	3.4	3.4	8.8	8.6	7.4	10.3	9.0
Foods	4.3	4.7	20.1	28.6	14.7	28.8	9.2
Other commodities (less foods)	2.3	2.5	5.0	4.0	5.4	2.6	7.9
Services	4.1	3.6	6.2	3.6	4.5	7.4	9.4

NOTE.—Based on data from Dept. of Labor.

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accounting for the largest part of the rise. Meat prices declined moderately from August to December, but prices of most other foods rose as processors and retailers were allowed to pass through labor and other cost increases after August. For the entire year the increase in retail food prices came to about 20 per cent—the fastest rate since the early postwar period.

Consumer prices of services, except for rent, advanced more rapidly after midyear than during the first half. Fourth-quarter increases in prices of nonfood commodities were especially large, reflecting in large part escalating prices for gasoline and fuel oil. Altogether, the increase in the consumer price index accelerated to nearly 9 per cent during 1973, as compared with 3.4 per cent during 1972. Apart from foods and petroleum products, however, the increase over the year amounted to less than 5 per cent.

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Monetary Policy and Financial Markets

In the early months of 1973 the need for further measures to restrain excessive economic expansion and a growing inflationary momentum seemed clear. Real output in the domestic economy was growing at an unsustainably rapid rate, key industrial sectors were approaching effective production ceilings, and prices were moving sharply higher. Although much of the steep price advance in the first half of the year resulted from increased dollar price quotations on internationally traded commodities—reflecting the decline in the foreign exchange value of the dollar—general pressures on resources from domestic demands were also high. Since money and credit had grown rather rapidly in 1972, the need for slower growth in 1973 was evident.

The Federal Reserve began strengthening its resistance to excessive monetary expansion near the end of 1972. This shift was intensified early in 1973 and then extended through a series of tightening actions until late summer. The principal policy thrust, as usual, came from open market operations, but successive increases in the Federal Reserve discount rate—from 4½ per cent at the end of 1972 to 7½ per cent in late August of 1973—supplemented and reinforced the open market initiative. In addition, several selective increases in bank reserve requirements were introduced in the late spring and summer to reinforce the pattern of general tightening.

Late in the summer, with real growth in the economy having moderated and with further slowing apparently in prospect, the System moved away from its policy of persistent tightening. This change was prompted by concern that the cumulative effects of earlier restrictive actions might eventually result in a greater dampening of real economic activity than was desired. Near the end of the year repercussions of the Middle East oil embargo added a special depressant to domestic activity but at the same time heightened expectations of further price increases.

During the period of policy tightening, growth in the key monetary aggregates slowed significantly, both in absolute terms and in re-

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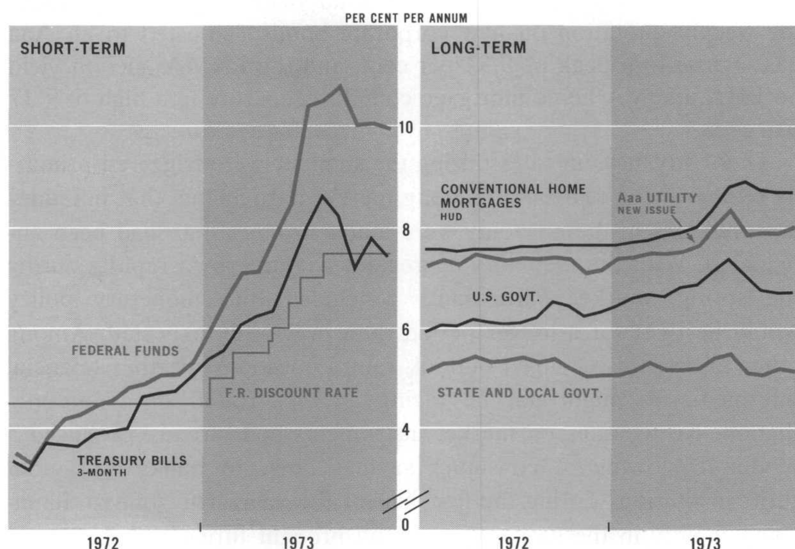
lation to the expansion of GNP. M_1, for example, grew at an average annual rate of about 5 per cent over the first three quarters of 1973, while current-dollar GNP was expanding at close to a 12 per cent annual rate. In contrast, during 1972 M_1 had grown somewhat more than 8.5 per cent, while GNP had increased 9.5 per cent.

For the shorter period from June to September of 1973, growth in M_1 dropped to around zero. Although it accelerated in the following quarter to about a 7.5 per cent annual rate, temporary factors were influencing the results in both quarters. A more accurate reflection of the trend of policy is thus provided by the 3.7 per cent annual growth rate over the two quarters combined. During 1973 as a whole, M_1 increased by 5.7 per cent; meanwhile the broader meas-

INTEREST RATES



NOTE.—Monthly averages except for home mortgages (based on quotations for one day each month) and F. R. discount rate. Yields: U.S. Treasury bills, market yields on 3-month issues; conventional mortgages, yields on first mortgages in primary markets, unweighted and rounded to nearest 5 basis points, from Dept. of Housing and Urban Development; Aaa utility 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.

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ures of money —M_2 *and* M_3—both grew by a relatively moderate 8.6 per cent.

In the course of policy tightening, interest rates trended upward —especially in short-term markets where credit demands tended to concentrate. The weekly average yield on 90-day Treasury bills, for example, reached a peak of nearly 9 per cent by August, some 3.9 percentage points above its level at the end of 1972. Over roughly the same period the comparable quotation on 90- to 119-day commercial paper—to which some large commercial banks relate their prime lending rate—rose 4.9 percentage points to 10.5 per cent.

Until early summer bond yields showed a relatively small response to the upward thrust of short-term rates. This sluggishness reflected the combination of a moderate volume of new bond offerings and widespread market expectations that less rapid economic expansion would lead to lower interest rates late in the year. As the summer progressed, however, sharp further increases in short-term rates were reflected in sizable advances in both bond yields and mortgage rates; the weekly quotation on new corporate bonds (adjusted to an Aaa basis) rose to a peak of 8.52 per cent, and the FNMA auction yield on FHA and VA home mortgage commitments rose to a high of 9.37 per cent.

These advances in rates during the summer were triggered primarily by a growing realization among market participants that inflationary pressures in the economy were much stronger than had been anticipated. With the monetary aggregates having grown rapidly during the spring, market participants concluded that monetary policy would be tight for a longer period than previously expected. Among other things, this changed outlook raised questions whether financial intermediaries might not be facing another round of disintermediation. Rising rates on market instruments had already produced a moderate slowing of consumer savings flows to banks and other thrift institutions during the first half of the year. The squeeze intensified rapidly in the early summer and brought threats of sizable net outflows, particularly at nonbank institutions. In order to limit the impact of sharply rising market rates on flows to intermediaries, Federal supervisory agencies raised ceiling rates payable on thrift accounts, effective in July.

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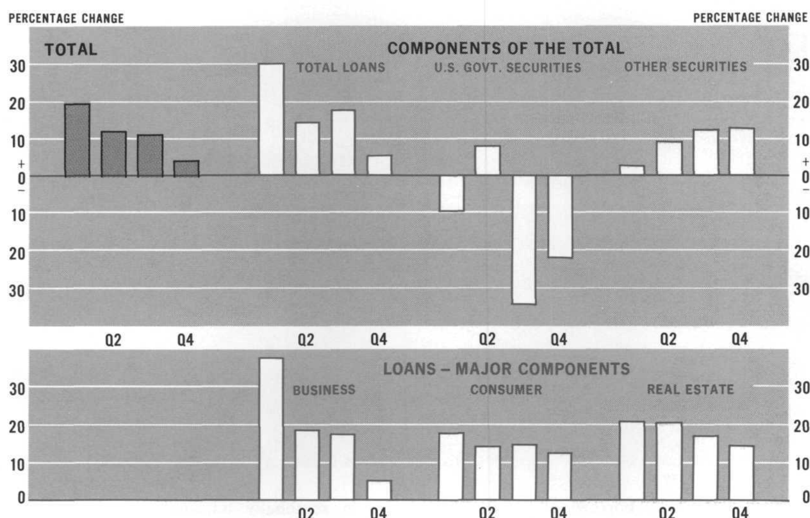
Later, when it became evident that domestic economic expansion was continuing to moderate, that growth in the monetary aggregates had slowed, that the U.S. balance of payments was strengthening dramatically, and that monetary policy was no longer tightening, market interest rates receded significantly from their summer highs. These declines, in combination with the earlier increases in ceiling rates at thrift institutions, relieved pressures on the financial intermediaries. By the year-end short-term rates were generally 1.5 percentage points or more below their summer highs, with long-term rates down roughly 0.5 of a percentage point from theirs.

A special factor affecting the structure of short-term credit flows during the year was the program of the Committee on Interest and Dividends (CID) regarding the rates that banks charge on loans to their prime business customers. Early in the year, when CID constraints prevented the prime loan rate from keeping pace with advances in commercial paper rates, prime rate customers turned in-

BANK CREDIT, 1973



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

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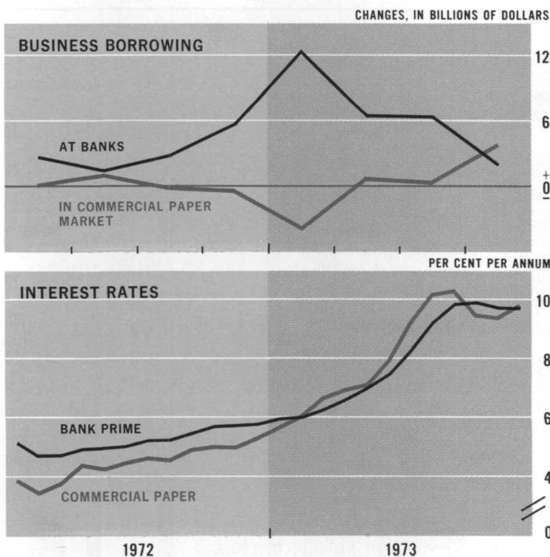
creasingly to their bank lines as the cheaper source of credit. To help meet these enlarged demands, banks were forced to bid aggressively for short-term funds at rising rates. Meanwhile the outstanding volume of more costly commercial paper declined sharply.

When the resulting upsurge in bank credit began to produce an inordinate expansion of business loans at the expense of other borrowers, the CID in mid-April introduced a "two tier" approach to rates on business loans. This system allowed rates on large prime loans to move in concert with advances in market rates, but at the same time limited rate increases on smaller loans. Changes in the outstanding volume of large prime loans tend to be more volatile than for other loans and thus frequently require banks to bid for needed loan funds at high marginal rates—for example, in the market for

SHORT-TERM BUSINESS BORROWING AND SELECTED INTEREST RATES



NOTE.—Business borrowing: Quarterly changes in seasonally adjusted commercial and industrial loans at commercial banks and in non-bank-related commercial paper issued through dealers. Interest rates: Monthly averages of daily figures for bank prime rate (rate charged large-business customers with the highest credit rating) and for commercial paper (rate offered by dealers on 30- to 59-day paper).

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large CD's. By late summer resulting upward adjustments in the top "tier" had moved the prime rate back into fairly close alignment with market rates. Subsequently, when market rates receded faster than the prime rate, business loan growth at banks was substantially reduced and commercial paper expanded again.

Two other financial developments in 1973 also bear special mention. One was the sharp reversal—from the first half to the second half—in the value of the U.S. dollar in foreign exchange markets. The other was the large decline in prices of corporate stocks in this country.

Depreciation of the dollar during the first half of the year—in addition to having a major impact on commodity prices, as discussed earlier—tended during the periods of peak dollar outflow to dampen growth in the monetary aggregates and to widen spreads between Treasury bill and other short-term interest rates. Bill rates rose less than other short-term rates because foreign central banks concentrated their reinvestment of dollar acquisitions largely in Treasury bills. Later in the year, when the dollar improved dramatically, these temporary influences on the aggregates and on Treasury bill rates reversed direction.

The drop in stock prices from the yearly high reached in January to the yearly low of early December amounted to 25 per cent in the New York Stock Exchange index, the largest downswing in this series since the 1969–70 recession. On other stock exchanges and in the over-the-counter market price declines were even larger. This general erosion of stock values was attributable to a complex of influences, including the energy crisis and the special economic uncertainties introduced by changes in the administration's price control program, as well as the more traditional concerns about stock values when interest returns on alternative types of investment instruments are high and rising.

MONETARY POLICY

The economic situation with which monetary policy was confronted in 1973 was an exceptionally difficult one. Since so much of the inflationary pressure that emerged as the year progressed was the result of developments in world markets not directly amenable to U.S.

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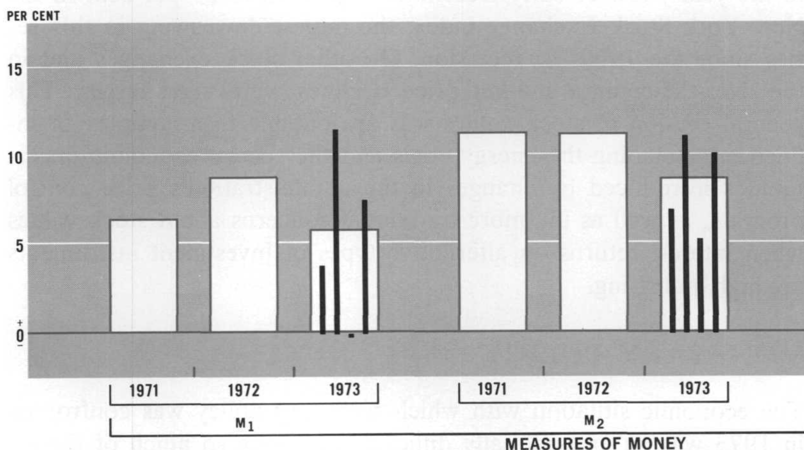
monetary controls, the Federal Reserve had to do its limited best to constrain the pressures that were building up within the economy while at the same time avoiding possible dislocations in the functioning of the domestic financial system.

In the day-to-day implementation of monetary policy, the Federal Open Market Committee (FOMC) continued to rely on a number of indicators to guide its actions. These included various measures of the money stock; bank credit; interest rates; and bank reserves. Occasional erratic short-run behavior in each of these required a continuing check on changing relationships among all of them in order to spot temporary aberrations in particular series. Thus, while a good deal of emphasis was placed on growth in the narrowly defined money stock as a guide to policy, this was always done within the context of a continuing assessment of the relationship of this measure to other key variables.

Monetary aggregates. The behavior of M_1 in 1973 again gave rise to difficulties in interpreting the short-run course of monetary policy.

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.

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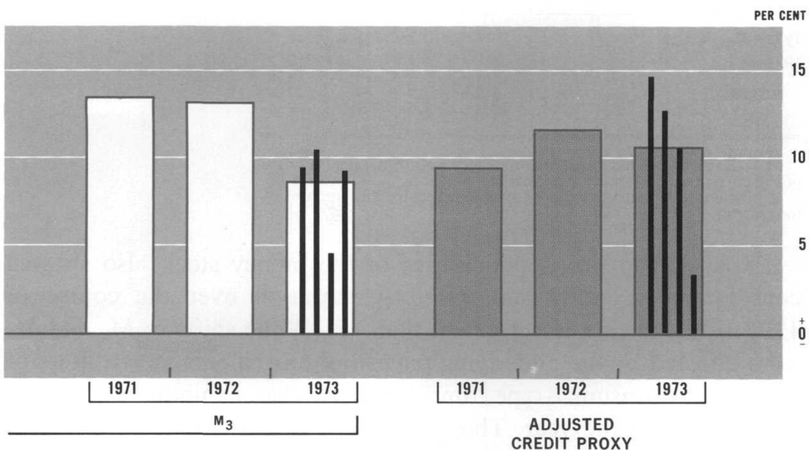
On both a month-to-month and a quarter-to-quarter basis its growth pattern showed large variations attributable to special factors other than basic transactions demand.

In January, for example, growth in M_1 slowed when State and local governments shifted revenue-sharing funds, which had been received in December, from demand deposits into time deposits and other investment instruments. Also, speculation prior to and following the dollar devaluation in February, and the subsequent floating of major currencies against the dollar, resulted in massive transfers of private funds to foreign assets, which may have reduced holdings of domestic cash balances temporarily.

The first-quarter slowing of growth in M_1 was followed by an upsurge during the second quarter to an annual rate of about 11.5 per cent. Although part of this acceleration may have reflected an adjustment to compensate for slower growth in money balances over the previous 3 months, unusually large refunds of personal income taxes in April and May also may have swelled demand balances and contributed to the faster second-quarter growth.



Adjusted credit proxy: Total member bank deposits subject to reserves, plus Euro-dollar borrowings, bank-related commercial paper, and certain other nondeposit items.

NOTE.—Seasonally adjusted quarterly rates of growth derived from daily-average data for last month of the quarter relative to those for last month of preceding quarter, annualized.

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Given this unusually strong April-May performance, some slowing in the growth of the money stock during the second half was to be expected, as the impact of high and rising interest rates in the spring and summer induced people to reduce non-interest-earning cash balances to minimum levels consistent with transactions needs. While the actual third-quarter slowdown was substantially larger than could be accounted for by these influences, the subsequent acceleration of growth in M_1 during the fourth quarter also seems to have been affected by special factors. Uncertainties related to the oil embargo may have led the public to increase its desired holdings of cash during November and December. Also, the post-Christmas and post-New-Year holidays in Europe seem to have led to some temporary build-up of uncleared foreign demand balances in U.S. banks at the year-end.

Table 6: ALTERNATIVE MEASURES OF QUARTERLY GROWTH IN THE MONEY STOCK

Annual rates, in per cent

Period	M_1		M_2		M_3	
	M	Q	M	Q	M	Q
1972—IV......	9.9	8.4	10.6	10.2	11.8	11.8
1973— I......	3.8	7.0	6.9	8.8	9.4	10.7
II......	11.5	7.5	11.1	8.7	10.4	9.1
III......	−.2	5.5	5.2	7.9	4.5	7.2
IV......	7.5	3.9	10.1	8.5	9.2	7.3

M = Rates calculated from daily-average levels in the final months of the current and the preceding quarters.
Q = Rates calculated from daily-average levels for all 3 months of the quarter.

Expansion in broader measures of the money stock also showed considerable monthly and quarterly variation over the course of 1973—though to a lesser extent than M_1. While shifts in M_2 and M_3 were affected by the underlying pattern of movements in M_1, flows of funds into consumer-type time deposits also exhibited significant changes during the year. These variations in the growth of thrift accounts reflected changes in the relative appeal of such deposits to savers, as spreads between ceiling rates on such accounts and the

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yields on competing market securities widened and then narrowed again over the course of the year.

The preceding review of changing growth patterns in the monetary aggregates has focused on rates of change between months at the ends of successive quarters. Because this approach provides a relatively current measure of recent tendencies, it has often been stressed by the FOMC in taking current policy action. To gain better perspective on the longer sweep of growth trends in the aggregates, however, it is useful to consider changes in average growth rates from one quarter to the next, where all months in the quarter are included. While this approach does not give quite so timely a measure of recent developments, it is less affected by temporary aberrations. Thus it provides a better perspective on the underlying thrust of policy. When data for 1973 are arrayed on the latter basis, they show more clearly (than the month-end to month-end measures) the underlying trend toward slower growth of the money stock during the year. Recent changes for both measures are shown in Table 6.

Bank credit and bank reserves. Changes in the bank credit proxy and in reserves against private nonbank deposits (RPD's) were also affected by special influences over the course of the year. For example, during the first quarter of 1973 when commercial paper rates rose relative to bank loan charges, encouraging such a rapid growth in bank loans to businesses, the expanded sales by banks of large CD's to accommodate these business demands contributed to a sharp acceleration in growth of the credit proxy. While this influence moderated significantly after introduction of the two-tier prime rate, growth in the proxy remained quite rapid during the second quarter, as the chart on page 43 suggests. In the fall, however, when commercial paper became cheaper than bank credit as a source of business funds, growth in business loans at large banks, in CD's, and in the credit proxy all slowed abruptly.

During 1973 the FOMC continued to use RPD's as an operating tool to help guide the Manager of the System Open Market Account in making the day-to-day adjustments in bank reserves needed to achieve the Committee's objectives for longer-run growth in the money and credit aggregates. However, relationships between given changes in the supply of RPD's and desired growth rates in M_1, M_2,

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Table 7: GROWTH IN BANK RESERVES

Item	1972	1973	1973 I	1973 II	1973 III	1973 IV
	Annual rate, in per cent					
Total reserves	10.6	7.8	6.4	6.9	10.6	6.1
Reserves required to support private deposits (RPD's)	10.1	9.3	7.8	12.5	14.2	1.4
	In millions of dollars					
Memoranda:						
Total change in RPD's [1]	2,938	2,692	568	927	1,086	111
By type of deposit:						
Required reserves for:						
Private demand deposits [1]	1,481	539	30	154	67	288
Time deposits other than large negotiable CD's	871	896	139	187	309	261
Large negotiable CD's and nondeposit sources of funds [1]	487	1,232	470	559	730	−527
Excess reserves	100	25	−70	27	−21	89

[1] Figures have been adjusted for changes in reserve requirements.

and the credit proxy were even more difficult to predict than usual. The rapid expansion of large CD's in the spring and early summer, and their subsequent sharp contraction—at the higher marginal reserve requirement in effect since May—first absorbed and then later released large amounts of reserves. Because of these added complications, greater stress was placed in the implementation of monetary policy on the performance of the money and credit aggregates themselves as intermediate targets and less on RPD's.

Interest rates. In addition to focusing on the behavior of the money and credit aggregates, the FOMC took into account movements in market rates of interest. In the short run the Federal funds rate provides an especially sensitive guide to monetary policy since it is directly responsive to Federal Reserve actions. This is the rate that member banks that are temporarily short of deposits at the Federal Reserve pay to borrow such reserves for one day from member

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banks that have temporary excesses. When the System acts to expand or contract the total supply of reserves available to banks, its actions are quickly reflected in changes in the level of the Federal funds rate.

The general pattern of changes in interest rates also reflects the strength of credit demands. Consequently, when current and prospective credit demands are large, as they were in 1973, pressures on the financial institutions supplying funds tend to become cumulative and to lead to general advances in the whole complex of interest rates. This pattern of change is clearly indicated by the chart on page 37. All short-term rates followed the steep rise of the Federal funds rate during the first three quarters of 1973, although—for the reasons noted earlier—the bank prime rate lagged behind the commercial paper rate until early fall, and spreads between the Treasury bill rate and other short-term rates varied at key points in the year. The abrupt rise in long-term rates during the summer—with home mortgage rates experiencing the steepest advance—is also shown in the chart.

Some of the 1973 rise in interest rates to new historical highs undoubtedly reflected investor expectations of further inflation in domestic prices. However, long-term rates, which are the ones most affected by inflationary expectations, showed a relatively modest increase until the third quarter. Although such rates did move up rapidly in that quarter, the increase was largely reversed after short-term rates turned down in the fall.

Other policy actions. General advances in short-term market rates and aggressive efforts by banks during the first quarter of 1973 to finance large demands for business loans forced rates on longer-maturity bank CD's of $100,000 or more up against their regulatory ceilings early in the second quarter. Since rate ceilings on shorter-term CD's had been suspended much earlier—in the summer of 1970—the question arose whether such ceilings should be reimposed or whether the remaining CD ceilings should be suspended.

The Board of Governors elected in mid-May to suspend rate ceilings on all large CD's. This action was taken as part of a regulatory approach designed to minimize distortions in financial markets by restraining credit expansion through rising costs of funds, rather than

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through the quantitative limitations inherent in interest rate ceilings. To make this cost effect more significant, the Board imposed a supplementary reserve requirement of 3 percentage points on the amount by which the outstanding volume of CD's and similar instruments exceeded the average of such deposits outstanding at mid-May, or $10 million, whichever was greater.[1] By late August, when the offering rate on CD's reached 10.50 per cent, this action had increased the cost of CD funds to banks by more than 35 basis points. A further supplementary 3 per cent reserve requirement was imposed in late September, following a sharp, further rise in outstanding CD's, and then removed in early December when the Middle East oil crisis raised questions about the economic outlook.

The suspension of rate ceilings and the imposition of supplementary reserve requirements on CD's had the combined effect of permitting banks to bid freely for CD funds, while at the same time increasing the cost of such funds. These costs were passed on to customers—chiefly large business borrowers—in the form of higher interest rates, and in this way they exerted a marginal constraint on credit expansion. At the same time, adoption of this new technique put the banks on notice that additional marginal increases in reserve requirements might be forthcoming if bank credit were to expand too rapidly.

In addition to these marginal reserve requirement actions, a more general change in reserve requirements was adopted in June (to become effective in July) as a means of reinforcing the increasingly restrictive thrust of open market operations. In this case reserve requirements were raised by ½ percentage point on all member bank

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[1] At the same time Euro-dollar reserve requirements were reduced from 20 to 8 per cent and the reserve-free base for Euro-dollars was reduced in several steps that would result in its complete elimination by March 1974. These changes made the requirements on Euro-dollar funds comparable to those on CD's and similar finance instruments (including the marginal 3 per cent requirement).

When the Board imposed the new reserve requirement on member bank CD's in May, Chairman Burns, on behalf of the Board, sent a letter to key nonmember banks requesting their cooperation in conforming to the new regulations. Specifically, such banks were requested to hold reserve deposits against increases in large CD's and in net borrowings from foreign banks in excess of base-period levels.

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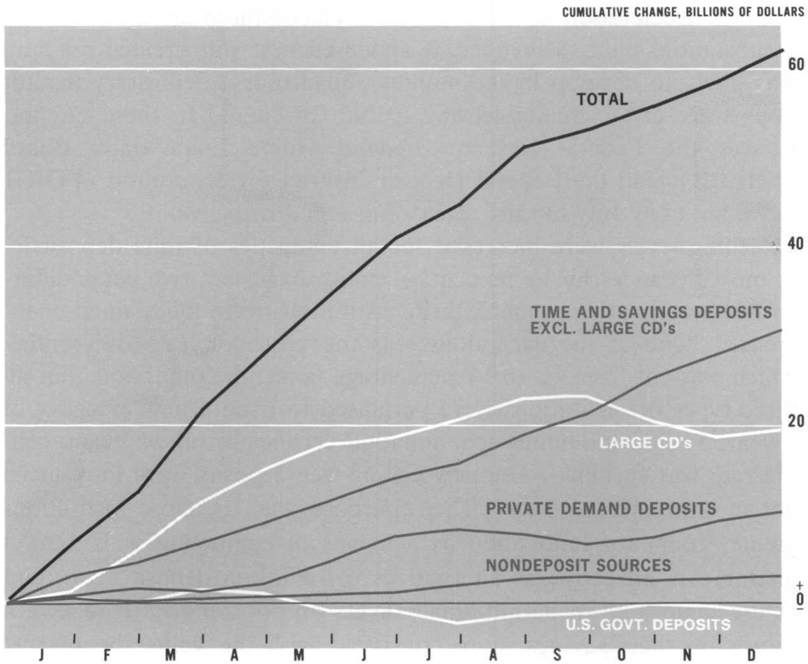
MAJOR SOURCES OF BANK FUNDS, 1973



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.

demand deposits in excess of $2 million. The action absorbed a little more than $850 million of bank reserves.

DISINTERMEDIATION

As noted earlier, rising market rates during the spring began to exert growing pressures on flows of funds into consumer-type thrift accounts at financial intermediaries. Because the boom in the housing market had created a huge demand for mortgage credit, and because the level of mortgage commitments outstanding at savings and loan

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associations and mutual savings banks had expanded to record levels, this deceleration in deposit growth placed these intermediaries in a substantial bind. Moreover, it appeared that still greater pressure was likely to develop in the months ahead unless depositary institutions were given greater leeway to bid for funds. In these circumstances the Federal Reserve, Federal Home Loan Bank Board (FHLBB), and the Federal Deposit Insurance Corporation (FDIC) moved in early July to raise rate ceilings on thrift accounts.

Ceiling levels were increased for all maturities of time deposits—in most instances by ½ percentage point. In all but two cases differentials favoring the nonbank thrift institutions were maintained or increased. One of the exceptions was the passbook rate differential, which was cut from ½ to ¼ percentage point; the other was that all three types of institutions were permitted to issue a new category of 4-year, $1,000 minimum-denomination certificates on which no ceiling rate was specified. The new ceiling-free deposits were introduced on an experimental basis. Their purpose was to allow institutions greater room for innovation as a means of competing with market instruments attractive as alternatives to saving in deposit form, and at the same time to permit small savers an opportunity to receive a return on their savings more consistent with the value the market was placing on those funds.

Following the liberalization of rate ceilings, depositary institutions moved aggressively to counter the effects of rising market rates on their deposit flows. Promotion of the 4-year, ceiling-free deposits was particularly active. While there was considerable variation in the terms offered on such accounts—with a few institutions linking their rates to price indexes, to market rate series, or to the commercial bank prime rate, and quoting rates as high as 9 per cent—the bulk of the rates offered ranged between 7 and 7½ per cent.

During the summer all types of depositary institutions suffered declines in passbook accounts. But these run-offs were offset in varying degrees by inflows to certificate accounts—largely the ceiling-free deposits. Commercial banks fared best—maintaining the same 10.4 per cent seasonally adjusted annual rate of growth for all consumer-type time and savings deposits as had been recorded in the second quarter. Deposits at nonbank thrift institutions, which would have

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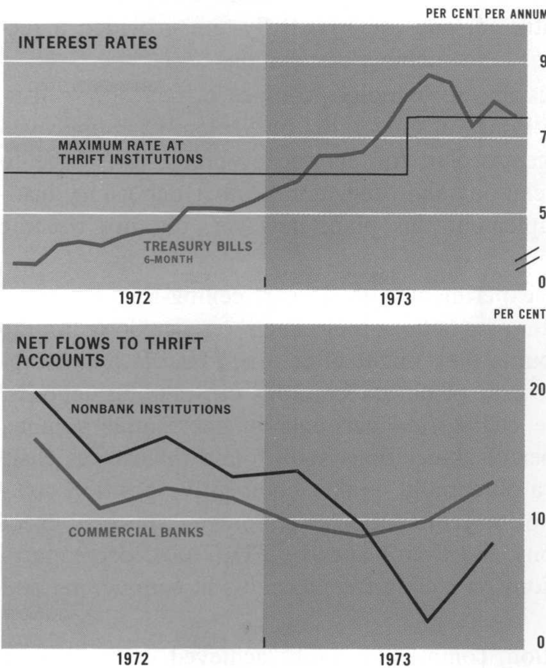
registered a substantial decline had it not been for interest crediting in this period, grew at a seasonally adjusted annual rate of only 2.0 per cent for the quarter.

Although rates on ceiling-free accounts that were tied to various indexes were most prevalent at banks, thrift institutions generally were offering average rates as high as, or higher than, those at banks. This may indicate that banks had somewhat greater success than thrift institutions in holding their old accounts. If so, the inter-

SELECTED INTEREST RATES AND THRIFT DEPOSIT GROWTH



NOTE.—Interest rates: Monthly data. Treasury bills, averages of daily rates on 6-month bills. Thrift institutions, averages of highest ceiling rates payable on consumer-type deposits at mutual savings banks and savings and loan associations. During the period July 1–Oct. 31, 1973, when the rate ceiling on 4-year, $1,000 minimum-denomination consumer-type certificates of deposit was suspended, most institutions offered rates no higher than 7½ per cent on these deposits.

Net flows are quarterly changes, at seasonally adjusted annual rates, in consumer-type time and savings accounts at commercial banks, in total deposits at mutual savings banks, and in savings capital at savings and loan associations.

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est rate differential that has long existed in favor of the nonbank thrift institutions may have resulted in a concentration of the more interest-sensitive consumer-type funds in those institutions, which would suggest that competition from high market rates was greater for them than for banks. Active efforts by the nonbank institutions in recent years to expand their high-yielding, certificate-type accounts no doubt contributed to this apparently higher degree of interest sensitivity.

The lack of new deposit inflows necessitated sharp adjustments in the portfolios of nonbank thrift institutions. Liquidity ratios declined significantly, facilitated in the case of the savings associations by a lowering of liquidity requirements by the FHLBB. Commercial bank lines of credit were utilized, and the FHLB System provided a record amount of advances to its member associations.

As general pressures on the liquidity positions of depositary institutions intensified, the Board of Governors on September 6 approved in principle a contingency plan for emergency credit assistance to savings and loan associations and other nonmember depositary institutions. Action to implement this plan, however, did not become necessary in 1973.

At the start of the experiment with 4-year, ceiling-free accounts, only savings and loan associations had been restricted as to the amounts of such accounts they might offer; the FHLBB had established a limit at 5 per cent of an association's outstanding deposits. Depositors sought the ceiling-free accounts in substantial volume, however, and a number of associations soon found themselves close to their limits and in a potentially weaker competitive position compared with other depositary institutions. To prevent distortions of flows among institutions, the Board and the FDIC placed comparable 5 per cent restrictions on ceiling-free accounts at commercial and mutual savings banks.

Despite this regulation, commercial banks achieved better deposit flows than nonbank thrift institutions during the summer, and this led in October to legislation requiring the Federal regulatory bodies to place rate ceilings on all categories of consumer-type time and savings accounts. To implement this legislation, ceilings of 7¼ per cent for commercial banks and 7½ per cent for mutual savings

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banks and savings and loan associations were established on the 4-year accounts, effective November 1.

By late September, however, the worst of the deposit outflow problem for the nonbank thrift institutions had already passed. By that time short-term interest rates had eased from their historic peaks, and a considerable proportion of interest-sensitive deposits apparently had been shifted into market instruments. Deposit growth at thrift institutions accelerated in October and attained an 8.0 per cent rate over the fourth quarter, while consumer-type time and savings deposits at commercial banks grew at a 12.5 per cent rate.

AGGREGATE FLOWS OF FUNDS

Funds raised by nonfinancial sectors of the economy during 1973 are estimated to have totaled $183 billion, compared with $166 billion in 1972. Although the increase in total funds raised was not appreciably different from the increase in 1972, there were considerable differences in credit market conditions in the 2 years. One clue to these differences is that the ratio of the flow of funds to nonfinancial sectors to GNP fell from 1972 to 1973, as it usually does during a period of increased credit stringency, rather than rising as it had in 1972. Furthermore, while total funds raised increased persistently from quarter to quarter in 1972, they dropped steadily in 1973 from a first-quarter peak. And beneath the aggregate data there were significant changes in the composition of fund flows that reflected governmental policies on interest rate ceilings, the differential effects of monetary policy on various sectors, and other factors.

One important change in the flow of funds in 1973 was the reduced role of the private financial institutions as providers of credit. Commercial banks, thrift institutions, insurance and pension funds, and other private financial intermediaries accounted for 66 per cent of the credit obtained by nonfinancial sectors—down from 83 per cent in 1972. In contrast, the portion supplied by private domestic nonfinancial lenders—notably households and businesses—rose from about 6 to 15 per cent. This, of course, is the counterpart of the phenomenon of disintermediation noted earlier.

Another sector accounting for an increased proportion of the Nation's credit supply was the Federal Government and the Federally

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sponsored credit agencies. Because of the important role that these agencies have come to play in supplying credit to the secondary mortgage market as well as to primary market lenders, the share of total funds supplied by the Federal sector reached 20 per cent in the third quarter, when deposit flows to thrift institutions were weakest; this was a sharp rise from the first-quarter ratio of 7 per cent.

Table 8: FUNDS RAISED IN CREDIT AND EQUITY MARKETS BY NONFINANCIAL SECTORS

In billions of dollars

Sector, or type of instrument	1972	1973	1973			
			I	II	III	IV
Total funds raised	**166.1**	**183.2**	**219.2**	**175.6**	**171.8**	**170.1**
By sector:						
U.S. Government [1]	17.3	9.7	32.7	1.2	−9.7	14.7
Other	*148.8*	*173.5*	*186.5*	*174.4*	*181.5*	*155.3*
Nonfinancial business	69.8	87.0	94.2	87.9	91.8	78.0
State and local governments	12.3	8.8	6.4	6.3	12.1	10.7
Households	63.3	70.9	71.7	73.1	77.0	61.8
Foreign	3.4	6.7	14.3	7.1	.7	4.8
By type of instrument:						
U.S. Government securities	17.3	9.7	32.7	1.2	−9.7	14.7
Corporate and foreign bonds	13.2	11.8	8.7	12.5	13.5	16.1
Corporate equities	10.0	5.5	4.0	6.0	3.9	8.2
State and local govt. debt [2]	11.9	8.9	6.1	6.5	12.3	10.7
Mortgages	*67.3*	*72.2*	*68.3*	*81.4*	*80.0*	*59.0*
Residential	50.0	52.0	50.5	60.5	56.8	40.4
Other	17.4	20.2	17.8	21.0	23.2	18.6
Bank loans n.e.c.	21.8	41.3	75.1	33.9	36.4	19.8
Open market paper	−1.6	2.5	−10.8	4.0	4.0	12.8
Consumer credit	19.2	22.9	25.7	24.7	22.5	18.8
Other loans	7.0	8.5	9.6	5.4	8.9	10.0

[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.

The proportion of credit supplied by the foreign sector changed over the course of 1973; after an extended period as a net supplier of funds, the rest of the world became a net demander during the last three quarters. In 1972 and the first quarter of 1973—before the U.S. dollar was allowed to float in foreign exchange markets—foreign central banks engaged in operations to support the dollar and through these actions they accumulated large holdings of dollars. These dollar accumulations were invested in U.S. securities, primarily

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marketable and nonmarketable Treasury issues. As the year progressed, however, the U.S. dollar gained strength—first on the basis of improved trade and balance of payments statistics, and later because of the differential impacts of the Middle East oil embargo. This led foreign central banks that were seeking to maintain exchange parities of their currencies to liquidate large amounts of their dollars assets.

The volume of credit supplied by the commercial banking sector was exceptionally large, but it declined strikingly as the year progressed. Expansion of bank loans and investments occurred at a rapid pace in the first quarter, moderated in the next two quarters, and then slowed to a very modest rate in the last quarter of the year. Loans outstanding increased by $69 billion over the year. While

Table 9: FUNDS SUPPLIED TO NONFINANCIAL SECTORS IN CREDIT AND EQUITY MARKETS

In billions of dollars

Sector supplying	1972	1973	1973			
			I	II	III	IV
All sectors	**166.1**	**183.2**	**219.2**	**175.6**	**171.8**	**170.1**
U.S. Govt. and sponsored credit agencies	8.3	21.7	14.9	23.2	34.8	14.3
Federal Reserve System	.2	9.3	20.5	3.5	1.4	12.0
Foreign sources	10.7	4.6	36.7	−8.1	−7.6	−2.5
Private financial institutions	*165.8*	*168.9*	*214.2*	*183.0*	*151.4*	*126.8*
Commercial banking	69.8	85.3	114.2	88.6	79.8	58.5
Savings institutions	49.3	35.6	57.3	42.0	22.7	19.9
Insurance and pension funds	32.5	35.9	37.7	35.4	33.2	37.7
Other	14.2	12.1	5.0	17.0	15.7	10.7
Net funds raised in credit and equity markets by financial institutions [1]	28.4	48.7	50.3	55.2	69.9	19.3
Funds advanced by private domestic nonfinancial sectors in credit and equity markets [2]	*9.6*	*28.3*	*−16.7*	*29.2*	*61.8*	*38.9*
Households	3.1	12.5	−19.2	16.0	40.4	13.0
Nonfinancial business	4.6	14.3	6.2	15.4	16.0	19.5
State and local governments	2.0	1.5	−3.7	−2.1	5.3	6.3
MEMO: Net change in deposits and currency held by private domestic nonfinancial sectors	102.2	90.6	124.7	97.0	66.8	74.0

[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.

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bank investments in "other" securities also expanded—by about $11 billion—all but $2 billion of this portfolio increase was offset by liquidation of Treasury issues.

In an examination of the composition of the demand for funds in 1973, strength of business, mortgage, and consumer instalment credit stands out clearly, as the chart on page 39 shows. This strength was most pronounced in the first half of the year when real economic activity was strongest and before interest rates rose to their highest levels. In contrast, the credit demands of State and local governments and of the Federal sector were relatively moderate. Most State and local units enjoyed more comfortable financial positions as a result of Federal revenue sharing and of large tax revenues generated by rapidly rising incomes. The volume of tax-exempt bond offerings was down slightly from 1972, despite the continued rapid growth of industrial revenue bonds for pollution control. In the Federal sector rapid growth of tax revenues, in combination with restraints on expenditures, reduced the Treasury's unified budget deficit to a level

Table 10: U.S. GOVERNMENT FINANCE

In billions of dollars

Item	Calendar year		
	1971	1972	1973
Deficit	**24.8**	**17.4**	**7.9**
Amount financed by changes in cash assets and other items	....	2.1	....
Total borrowing from public	**24.8**	**15.3**	**7.9**
Net Federal Reserve purchases of Treasury securities	8.1	−.3	8.6
Net Treasury borrowing from private investors:			
Marketable:[1]			
Foreign	15.5	4.5	−5.4
Other	−11.9	3.4	−4.1
Nonmarketable:			
Foreign	10.9	3.9	5.6
Other	2.2	3.8	3.2
Memoranda:			
Net borrowing by Government sponsored agencies	1.1	3.5	16.3
Federal Reserve purchases of agency issues	.5	.8	.6

[1] Includes Treasury securities as well as securities issued directly by budget agencies. The ownership distribution is approximate.

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far below earlier projections; thus the limited demands of the Treasury provided an offset to the substantial needs of Federally sponsored credit agencies.

Consumer demands for durable goods remained exceptionally strong in the first quarter of the year. The $25.3 billion annual rate of increase in consumer credit outstanding during that quarter was only slightly below the record of the previous quarter; commercial banks accounted for more than one-half of the gain. As was indicated earlier, the growth in consumer expenditures for durable goods declined after the first quarter and became negative in the fourth quarter when auto sales declined markedly, for the most part because of the fuel shortage. As of mid-1973 the ratio of consumer indebtedness to disposable personal income stood at a record high, and loan delinquencies were unusually large for a business cycle expansion.

Also adding to the debt burden of the household sector was the massive growth of mortgage debt. Growth of such credit reached a record volume in the second quarter of 1973, but it continued to expand at nearly as fast a pace in the third quarter, as borrowers took down prior commitments for loans. As the year progressed, however, the rate of growth in mortgage debt was affected by the cutback in housing starts that had begun in the spring. While thrift institutions played their customary role as the leading providers of residential mortgage credit during 1973, commercial banks accounted for a substantial proportion of the flow of funds to the mortgage market. For the year as a whole these banks supplied $18.9 billion of mortgage credit, up from $16.8 billion in 1972; in contrast, the amount of funds supplied by the thrift institutions declined from $37.6 billion to $32.3 billion. An increase in credit from Federally sponsored agencies provided a partial offset to the reduced participation of the thrift institutions.

The nonfinancial business sector acquired $87 billion from the credit and equity markets in 1973, a 25 per cent increase over the preceding year. The exceptionally large flow to businesses in the first quarter was attributable in part to the use of bank loans to finance purchases of higher-yielding liquid assets, such as large CD's, and to reduce outstanding commercial paper debt. For the year as a whole, however, the dominant factor in explaining business demands in the

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credit and equity markets was the growing gap between capital outlays and internal funds generated. Needs for external funds normally expand at a rapid rate in the advanced stages of a business cycle, but during 1973 special factors were also limiting the growth of internal funds—notably, exhaustion of available tax-loss carry-forwards and the liberalization in mid-1973 of CID restraints on dividend payouts.

The external financing requirements of businesses in 1973 were met largely in the debt markets—in particular, short-term debt markets. Equity financing was not attractive because share prices showed substantial declines during most of the year. Offerings of corporate bonds were considerably less than in 1972; in fact, the volume of publicly offered bonds was the smallest since 1969. Given the improvement in their liquidity positions over the period since 1970, corporations apparently felt that they could, without undue risk, postpone long-term financings in the hope of obtaining lower long-term rates later. As short-term rates remained relatively high toward the end of 1973, and as prospects for inflation worsened, calendars of issues of new corporate bonds began to build up—perhaps indicating a shift in interest rate expectations and a movement to fund short-term debt.

The initial focus of the heavy demands by businesses for short-term credit was on the commercial banking system. Restraints imposed by the CID on the bank prime rate had led, by late 1972, to the development of a rate spread that favored borrowing from banks as opposed to the sale of commercial paper. Thus large corporations were heavy demanders of bank loans, and so too were smaller firms for which banks are the only regular source of credit. Furthermore, as market rates of interest rose and commercial banks raised their offering rates on large CD's, some prime borrowers perceived an opportunity to arbitrage by borrowing at the artificially low prime rate and then relending at the CD rate. As a result, the expansion of business loans at commercial banks reached a record level in the first quarter of 1973 while commercial paper outstanding dropped sharply. Total business credit, however, still increased at a record rate.

During the late spring and summer, rate differentials began to shift in the direction of favoring borrowing in the commercial paper mar-

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ket—a movement that was influenced by the two-tier prime rate concept introduced by the CID in April, and by the imposition of marginal reserve requirements on large CD's and selected nondeposit liabilities, noted earlier. Growth in business loans at banks decelerated in the second and third quarters, while commercial paper gradually resumed a positive trend. In September, however, market rates of interest dropped sharply, causing commercial paper rates to decline relative to the bank prime rate. During the fourth quarter business loan growth at banks was quite moderate, as commercial paper expanded rapidly.

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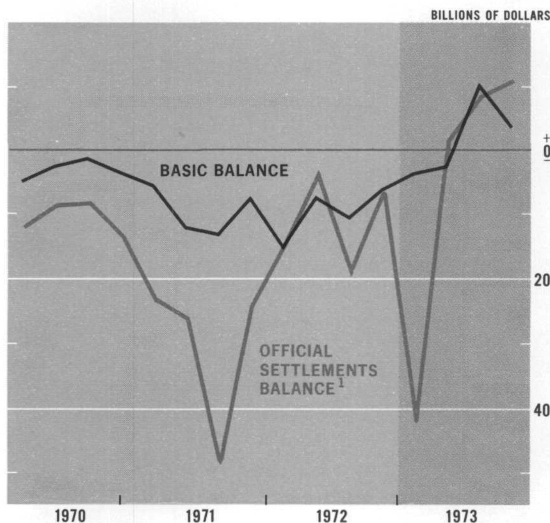
International Developments

During 1973 the U.S. balance of payments registered steady gains in the goods and services balance, and net flows of private long-term capital were inward for the year. As a result the basic balance (current account plus long-term capital flows) for the year moved into surplus for the first time since 1957, a striking reversal of the $10 billion basic deficit in 1972.

In the early part of the year, however, confidence that the balance of payments would recover was at a low ebb and massive flows of funds into other currencies precipitated a second devaluation of the dollar in February. Subsequently six of the members of the Euro-

U.S. BALANCE OF PAYMENTS



[1] Excludes SDR allocations.

NOTE.—Dept. of Commerce data at seasonally adjusted annual rates; fourth quarter partly estimated.

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pean Economic Community (EEC) allowed their currencies to float against the dollar, while remaining fixed among themselves. After a period of stability in the spring, the six EEC currencies, led by the German mark, appreciated against the dollar as well as against the Canadian dollar, the British pound, and the Japanese yen. By July the dollar had dropped substantially relative to EEC currencies, and on a weighted average basis the dollar exchange rate against 10 leading foreign currencies was about 23 per cent below the level of May 1970 and 15 per cent below the level at the start of 1973.

Exchange rates stabilized after the middle of July following moderate amounts of intervention by the Federal Reserve and the German Federal Bank. In the autumn the exchange rate for the dollar began to appreciate markedly, reflecting improvement in the U.S. trade balance. A major new impetus to the strengthening of the dollar was imparted by the actions of the Middle East oil producers in announcing limitations on production in October, followed by the more than threefold boost in the price of oil exports by the producing countries in two steps in October and December.

Limitations on supply, even if applied most severely to the United States, were expected to be more harmful to the economies of other countries more dependent on oil imports as a source of energy for industry. When increases in production were resumed, attention shifted to the huge increases in the monetary reserves of oil-producing countries that would result if the new price structure were sustained, and the general view was that these asset accumulations would tend to strengthen the dollar relative to other currencies because of the likelihood that U.S. money and capital markets would provide the best opportunity for absorbing investment flows of such potential magnitudes, both directly and through the Euro-dollar market.

Recovery in the U.S. balance of payments was supported by the continuing effects of the exchange rate changes that had begun in 1970, and also by the steep rise in the quantity and price of agricultural exports. Economic activity abroad continued to advance, supporting export gains, while real output in the United States was slowing down, reflecting in part supply bottlenecks. The improvement in the trade balance during the year, in real terms, was a con-

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siderable offset to the slackening in the growth of effective demand in other sectors of the economy. However, while rising demands abroad aided the U.S. trade balance, they also added to upward pressures on prices, especially for world-traded basic commodities, and helped to expose a growing problem of imbalances between demand and available supply.

Despite supply problems and the gyrations in exchange rates, world trade in real terms grew at a phenomenal rate in 1973. At times pressures on particular exchange rates became severe and led either to sizable interventions by monetary authorities or to wide fluctuations in exchange rates, but on the whole the successive crises were accommodated by the market without major disruption.

As the year ended, the improvement in the exchange value of the dollar accelerated, despite large sales of dollars by some foreign monetary authorities. During January 1974 the weighted-average exchange rate for the dollar came near the rate at the beginning of 1973. In view of the change in the balance of payments outlook, the controls on outflows of U.S. private capital were relaxed in December 1973 and terminated in January 1974. A moderate drop in the exchange value of the dollar followed the termination.

PROGRESS TOWARD EQUILIBRIUM

The U.S. trade balance swung into a small surplus in 1973, the first surplus in more than 2 years and a dramatic turnaround from the $7 billion deficit in 1972. Exports rose very steeply, by nearly 45 per cent, while imports increased by a more moderate 25 per cent. The expansion in exports was paced by an exceptionally large rise in shipments of agricultural commodities as harvests outside the United States were far below normal and the U.S.S.R. and People's Republic of China became large purchasers of U.S. farm products. Price increases accounted for over two-thirds of the increase in the value of agricultural exports in 1973, as world demand exceeded available supplies.

Exports of nonagricultural commodities also rose quite sharply—by over 30 per cent—in 1973. More than half of the increased value of such exports reflected larger volume. Major reasons for the growth in nonagricultural exports were the strong economic expansion abroad and the cumulative effects of the depreciation of the

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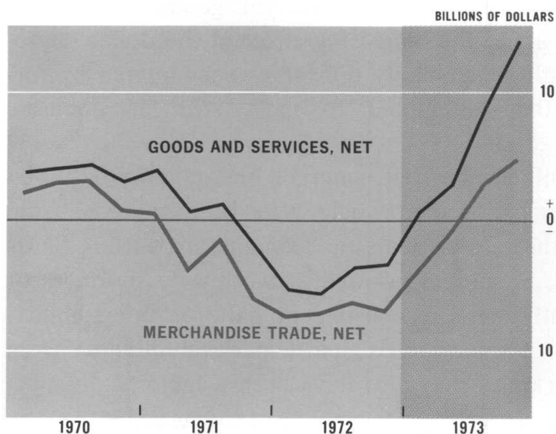
GOODS AND SERVICES



NOTE.—Dept. of Commerce data at seasonally adjusted annual rates.

dollar that had begun in 1970 and had made U.S. goods much more competitive in world markets. Also the tightening of price controls in June held domestic prices of some goods below world prices (in dollars) of comparable products, encouraging export sales at higher dollar prices by domestic producers of fertilizers, chemicals, and various metals. This incentive to export was partially removed later in the year as the Cost of Living Council removed or relaxed domestic price controls on metals and fertilizers.

As a result of the exceptionally rapid growth in the volume of U.S. exports of manufactures, the U.S. share of total world trade in manufactures rose in 1973, after many years of decline.

The increase in the value of imports in 1973 stemmed almost entirely from higher prices; import volume remained stable except for fuels, which increased steadily throughout most of 1973. Near the end of the year, however, the volume of oil imports dropped as a consequence of the embargo by Middle East oil-producing countries.

The volume of nonfuel imports in 1973 was very slightly higher than in 1972, and this behavior was evident in most major import commodity categories—automobiles and other consumer goods, industrial materials (other than fuels), and foodstuffs. Only in capi-

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tal equipment did the volume of imports rise strongly. The decline in the import volume of other types of finished goods is probably attributable in large part to the increasing effect of the dollar depreciations, combined with some supply difficulties encountered by foreign producers as they attempted to meet stronger domestic demands.

With respect to nonfuel industrial materials, the quantity imported rose only slightly, much less than would have been expected from past relationships to the rate of domestic economic expansion. Shifts of user demands to U.S. sources, as well as worldwide shortages of these goods, apparently were responsible in part for this stability. Increased availability of some metals (particularly aluminum) from U.S. Government stockpiles may also have been a factor.

Improvement in the U.S. trade balance in 1973 was reflected in balances with most areas. The trade deficit with Japan, which had persisted for many years and had totaled $4 billion in 1972, fell to about $1¼ billion in 1973, with only small monthly deficits recorded in the second half. The trade balance with Western Europe, which had shifted from a traditional surplus with those countries to a deficit in 1972, swung back into a substantial surplus in 1973. The trade balance with the less developed countries as a group also improved in 1973. The balance with Latin America and the Middle East countries improved despite the increase in oil imports from those regions, but a trade deficit with Africa developed because of larger oil imports from that area. A considerably enlarged trade surplus with Eastern Europe in 1973 reflected the heavy shipments of grain and soybeans to the U.S.S.R.

The outlook for the U.S. trade position in 1974 depends, to a considerable degree, on the effects of the present energy crisis. The import bill for petroleum could rise to more than $20 billion in 1974 compared with about $8 billion in 1973, even if quantities continue to be reduced by the embargo. Prospects for exports are clouded by the possibly severe effects of the energy problem on economic growth in other industrial countries and on the import capabilities of some developing countries whose oil import costs may be especially burdensome. In addition, one effect of the recovery in the value of

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the dollar in the exchange markets since mid-1973 is likely to be the erosion of some of the competitive shift derived from the earlier rate movements.

The usual U.S. surplus from investment income and services increased substantially in 1973, rising to a total of nearly $6 billion, more than double the surplus in 1972. Returns on U.S. investments abroad rose very sharply (in terms of dollar amounts) as a result of the change in exchange rates, stronger economic activity abroad, and higher petroleum prices. Interest payments to foreigners on their assets in the United States also rose in 1973, but more moderately. Sales of military equipment to foreigners increased sharply while military expenditures abroad showed little change. Also, receipts from foreign travelers to the United States rose more than expenditures abroad by U.S. travelers.

Flows of long-term private capital tended to strengthen the U.S. balance in 1973, despite a major outflow of U.S. direct-investment capital early in the year when further depreciation of the dollar was expected. Thereafter outflows by U.S. investors diminished, while foreign investors placed record amounts in the United States to purchase equity securities and to finance growing foreign direct investments in this country. Net foreign purchases of U.S. corporate stocks were nearly $3 billion for the year.

Inflows of foreign capital for direct investment, that is, investment involving a substantial voice in management, appear to have approached $2 billion in 1973—far exceeding any previous experience. Such inflows were spurred in part by the lower exchange value of the dollar and the consequent rise in the relative advantage of producing goods in the United States. There may also have been some inflows directly or indirectly out of the rising revenues of the oil-producing countries. However, a factor of growing importance may have been the restoration of confidence in the comparative strength and stability of the U.S. economy.

Flows of U.S. private capital in shorter-term forms were strongly outward in the first quarter of the year—including large unrecorded outflows—but were a less significant element thereafter. After market rates of interest in the United States moved up sharply in the first half of the year, and the dollar strengthened in the market, there were inflows of foreign funds to U.S. banks.

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Table 11: U.S. BALANCE OF PAYMENTS

In billions of dollars, seasonally adjusted

Item	1972	1973 e	1973			
			I	II	III	IV e
Merchandise trade balance	− 6.9	.7	− 1.0	− .3	.7	1.2
Exports	48.8	70.3	15.3	16.8	18.2	20.0
Imports	55.7	69.6	16.3	17.0	17.4	18.9
Services, net	2.3	5.8	1.1	.9	1.4	2.3
Balance on goods and services	− 4.6	6.4	.2	.7	2.2	3.5
Remittances and pensions	− 1.6	− 1.8	− .4	− .4	− .4	− .6
U.S. Govt. grants and capital, net	− 3.5	− 3.6	− .7	− .6	− .9	− 1.5
Long-term private capital, net	− .2	.9	−(1)	− .3	1.7	− .4
Balance on current account and long-term capital	− 9.8	1.9	− .9	− .6	2.5	.9
Nonliquid short-term private capital, net	− 1.6	− 4.0	− 1.8	− 1.4	.2	− 1.0
Errors and omissions	− 3.1	− 5.8	− 3.8	.4	− 1.2	− 1.2
Liquid private capital, net	3.5	2.6	− 3.9	1.9	.6	4.0
Of which: Liabilities to foreign commercial banks	3.9	2.9	− 1.9	.7	.8	3.2
Official settlements balance (excluding SDR allocations)	−11.1	− 5.3	−10.5	.3	2.1	2.7

e Estimated.

[1] Less than $50 million.

NOTE.—Dept. of Commerce data with some Federal Reserve estimates. Details may not add to totals because of rounding.

Late in 1973 a broad relaxation of the restraints on capital outflows from the United States was announced—and such controls were terminated in January 1974. At the same time other countries were reducing their barriers against inflows of foreign capital, reflecting the shift that had been occurring in balance of payments positions.

INTERNATIONAL MONETARY SCENE

During 1973 financial and foreign exchange markets were affected strongly by changes in the outlook for the balance of payments of the United States and other major industrial countries. Early in the year the U.S. dollar came under severe selling pressure, as there was continuing skepticism about the prospect for adequate improvement in the U.S. trade balance in response to the Smithsonian realignment of exchange rates. Large flows of funds from the United States to EEC countries with strengthening trade positions—notably Germany

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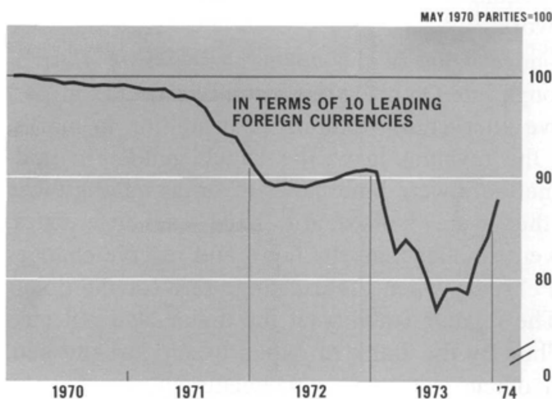
—produced a U.S. deficit on official reserve transactions of more than $8 billion in the first 2 weeks of February. Following the February 12 devaluation of the dollar by 10 per cent, there was a partial reversal of the earlier flows, but by early March renewed heavy demand for European currencies led to further large reserve gains by EEC countries; all official intervention in exchange markets ceased; and these markets were officially closed.

In early March six EEC countries (Germany, France, Belgium, Luxembourg, the Netherlands, and Denmark) plus Norway and Sweden agreed to maintain a fixed exchange rate relationship among their currencies, while permitting them, as a group, to float against the dollar. After exchange markets were officially reopened on March 19 on the new basis, the exchange rate for the dollar against these EEC currencies remained relatively stable until mid-May, when demands for EEC currencies increased sharply, reflecting in part political and economic uncertainties in this country and in part the strong German trade account and the progressive tightening of financial policies in Germany.

With the demand for German marks pulling rates for all EEC currencies higher against the dollar than they otherwise would have

INTERNATIONAL VALUE OF THE U.S. DOLLAR



NOTE.—Monthly-average market exchange rate of U.S. dollar against 10 major foreign currencies weighted by foreign trade in 1972. The weight for each currency is the share of that country's total trade (exports plus imports) in the total trade of the 10 countries plus the United States.

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been, by mid-1973 the dollar had depreciated against the EEC currencies by an average of 15 per cent from its February level. The German mark was revalued at the end of June. However, the dollar remained strong against the currencies of our major trading partners —Japan and Canada—and, reflecting sales of dollars by Japan while most other central banks were not intervening in the market, there was actually a reduction in U.S. official reserve liabilities in the second quarter of the year.

By early July exchange markets for the dollar against EEC currencies had become disorderly. Beginning July 10 the Federal Reserve undertook intervention to stabilize the exchange rate for the dollar, drawing on recently enlarged swap lines, and sold $273 million of foreign currencies (marks, French francs, and Belgian francs) by the end of the month. This action was reinforced by coordinated purchases of dollars by the German Federal Bank and relaxation of a credit squeeze in the German interbank market. The appearance of central bank intervention, together with the joint statement on July 18 of the Chairman of the Federal Reserve Board of Governors and the Secretary of the Treasury that intervention would take place "in whatever amounts are appropriate for maintaining orderly market conditions," helped to restore exchange markets to more normal functioning. The dollar strengthened by about 3 per cent during the first weeks of August, and the Federal Reserve purchased the currencies required to repay the drawings it had recently made on the swap network.

Thereafter the exchange value of the dollar against EEC currencies changed little through late October; this stability reflected in part further Federal Reserve intervention totaling $236 million in marks, particularly following the revaluation of the Dutch guilder in mid-September. At that time there were large flows of funds among those European countries that were maintaining fixed exchange rates, although these flows were smaller than the flows and reserve changes that had occurred in February when the exchange rate for the dollar had also been fixed. The relative stability of the dollar also reflected continued sales of dollars by the Bank of Japan to support the yen. These sales led to an official settlements payments surplus for the United States of $2 billion in the third quarter.

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At the end of October the demand for dollars began to increase markedly, reflecting a fundamental reassessment of the underlying strength of the U.S. balance of payments. The proximate cause for the shift was publication of a large trade surplus for the month of September, but of more lasting importance was the shift in market judgment concerning the impact on international payments of sharply higher oil prices. Between late October and the year-end the dollar had appreciated by 8 per cent on the average, despite central bank sales of substantial amounts of dollars. As a result the United States had a surplus of nearly $3 billion in the official reserve transactions balance during the final quarter of 1973. From year-end 1973 through late January 1974 the dollar appreciated still further, accompanied by heavy foreign central bank intervention. Following the removal of U.S. capital controls on January 29, and the subsequent decline in U.S. interest rates, however, the dollar depreciated and by late February was back to slightly below its year-end levels.

The periods of exchange market pressure during the year were accompanied by sharp increases in the market price of gold. When exchange markets stabilized, these increases were partly reversed, but the price of gold rose sharply again in early 1974. In mid-November 1973 the United States and the other participating European countries agreed to terminate the agreement of March 1968 regarding official gold transactions, removing an obstacle to official sales in the private market and thus permitting greater flexibility of action in the future.

Against the background of adjustment and accommodation to the strong forces that were influencing payments developments during 1973, officials continued to work on the development of agreed rules under which the international monetary system might function with more stability in the years ahead. The Committee of Twenty of the International Monetary Fund presented a First Outline of Reform at the Fund's annual meeting in Nairobi in September. This report set forth the general shape of a possible reformed system. Among other things it suggested a regime of stable but adjustable exchange rates, with provision for floating exchange rates in particular situations. After the Nairobi meeting, technical groups were organized to examine in detail various aspects of the system. These include the

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process of adjustment of payments imbalances; provisions for the settlement of international payments imbalances and for official intervention in exchange markets; global liquidity and the possible consolidation of outstanding reserve currency balances; and the transfer of real resources to developing countries.

While discussions of monetary reform issues look to the future functioning of international economic relationships, they are continuously influenced and modified by the changing economic environment and, in turn, provide one of the forums for dealing multilaterally with pressing current problems. The effects of the energy crisis on economic activity, and especially on international trade and financial relationships, were a major concern of the meeting of the Committee of Twenty in January 1974 and of the special conference on energy problems held in Washington in February.

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Part 2

Records, Operations, and Organization

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Record of Policy Actions of the Board of Governors

JANUARY 2, 1973

AMENDMENT TO REGULATION T, CREDIT BY BROKERS AND DEALERS

Effective January 2, 1973, the Board adopted a technical amendment to Regulation T.

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

The purpose of this amendment was to make clear that the 90-day restriction in a special cash account would begin with the trade date of the sale of the security that the customer had not previously paid for within the allotted seven business days, rather than with the trade date of the purchase of the security.

JANUARY 9, 1973

RELEASE OF FINANCIAL REPORTS

Effective with year-end 1972, the Board adopted a policy of making available to the public two financial reports filed with the Federal Reserve by State member banks.

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

The Board's action resulted in the release to the public, upon request, of (1) quarterly reports of condition, including detailed schedules of loans, cash assets, demand and time deposits, and other assets and liabilities, beginning with reports for December 31, 1972, and (2) annual reports of income, beginning with 1972. Previously, only

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the face of the condition report had been available for public inspection.

Concurrent actions to make such reports available to the public were taken by the Office of the Comptroller of the Currency and by the Federal Deposit Insurance Corporation in connection with reports filed by national banks and by insured nonmember State banks, respectively. Public disclosure of the reports had been under consideration since the adoption in 1969 of more uniform reporting requirements by the Federal bank supervisory agencies, and the move was made in an effort to comply with the spirit and intent of the Public Information Act.

JANUARY 15, 1973

AMENDMENT TO RULES REGARDING DELEGATION OF AUTHORITY

Effective with applications received by the Reserve Banks after January 15, 1973, the Board amended its Rules Regarding Delegation of Authority to delegate to the Federal Reserve Banks authority to approve the acquisition by a bank holding company of additional shares in a bank, whether or not the bank was a subsidiary, when the shares were acquired through the exercise of rights received as a shareholder.

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

Authority to approve the acquisition of additional shares by a bank holding company had previously been delegated to the Reserve Banks only in instances in which the shares to be acquired were those of subsidiary banks. Since there was no reason to differentiate between subsidiary and nonsubsidiary banks, the amendment was designed to place both categories on the same footing.

JANUARY 26, 1973

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

The Board authorized issuance of an interpretation of Regulation K that would permit Edge Act corporations to establish special-purpose

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leasing corporations without specific Board approval. By reference the Board also applied the interpretation to investments made directly or indirectly by bank holding companies under similar circumstances in special-purpose corporations that did no business in the United States other than business that might be incidental to their international or foreign business.

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

It is common practice for certain types of lease financings—for example, in the leasing of commercial aircraft or vessels—to be structured in such a way that legal title to the personal property or equipment rests in a separately incorporated entity. Such special-purpose corporations may be used to reduce the potential exposure of the parent financial institution to tort liability arising in connection with the operation of an aircraft or vessel; to comply with the laws of the various countries relating to registration of aircraft or vessels or perfecting liens on equipment; or to minimize taxes upon rental payments received under the lease.

The distinguishing feature of special-purpose corporations is that they are formed for the purpose of engaging in a specific transaction involving the financing of one or more items of personal property or equipment and a single customer, rather than a general business.

It was the Board's opinion that such special-purpose corporations represented credit facilities provided by the parent financial institution, either alone or in participation with others, and should be regarded as activities of the parent financial institution and not as investments requiring Board approval. For this reason, the Board concluded that no regulatory purpose would be served by having the Board screen in advance each transaction entered into in this manner.

The Board understood that, in most cases, these special-purpose corporations were established under an arrangement whereby the creditors who made loans to such corporations did not have recourse to the parent Edge corporation, or to its subsidiary engaged in the general business of leasing or financing, for the repayment of such loans. In those instances where the financing arrangement contem-

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plated that creditors of the special-purpose corporation should have recourse to the parent Edge corporation or its leasing or financing subsidiary, borrowings by the special-purpose leasing corporation of the type described in Section 211.4 of Regulation K should be regarded as if they were those of the guarantor and should not cause the borrowings of the latter to exceed the amount previously approved by the Board. All assets and liabilities of special-purpose corporations should be fully reflected in consolidated financial statements of their parent institution(s) filed with Federal bank regulatory authorities.

The parent Edge corporation should furnish the Board with such information regarding the activities of each special-purpose corporation as the Board might require from time to time, and it should maintain full information on such subsidiaries at its head office.

MARCH 23, 1973

AMENDMENT TO RULES REGARDING DELEGATION OF AUTHORITY

Effective March 23, 1973, the Board amended its Rules Regarding Delegation of Authority to delegate to the Federal Reserve Banks authority to grant to bank holding companies extensions of time in which to file annual reports to the Board.

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

Instructions on the annual report form had limited a Reserve Bank to the granting of one 30-day extension of time after the end of the fiscal year for a bank holding company to file its annual report. The purpose of the amendment adopted was to enable a Reserve Bank to grant to a bank holding company an extension of up to 90 days in which to file an annual report if the circumstances warranted, and for good cause shown, to grant an additional extension of time not to exceed 90 days.

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APRIL 3, 1973

REVISION OF REGULATION A, EXTENSIONS OF CREDIT BY FEDERAL RESERVE BANKS

Effective April 19, 1973, the Board revised Regulation A, primarily for the purpose of assisting smaller banks to meet the seasonal borrowing needs of their communities.

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

The Board's action was a further step toward implementing recommendations made by a System Steering Committee in a report entitled "Reappraisal of the Federal Reserve Discount Mechanism."

The revisions made a number of technical and clarifying changes in the regulation and continued in effect the provisions for adjustment credit to assist a member bank to meet a temporary requirement for funds or to cushion more persistent outflows pending an orderly adjustment of a member bank's assets and liabilities. The revised regulation reaffirms the System's readiness to extend credit to member banks in emergency or unusual circumstances and to make credit available in emergency situations to other financial institutions, corporations, partnerships, and individuals on the security of Government obligations.

Member banks that lack reasonably reliable access to national money markets may now arrange for seasonal credit accommodation. The purpose of such credit is to assist those banks in meeting seasonal needs for funds arising from a recurring pattern of movements in deposits and loans that persists for at least 8 weeks.

Under this arrangement an eligible bank is required to provide part of its own seasonal needs—up to 5 per cent of its average total deposits in the preceding calendar year. It may then meet its additional seasonal needs by borrowing from a Federal Reserve Bank.

The bank is required to arrange in advance with its Reserve Bank for seasonal borrowing. Credit under this arrangement may be extended to member banks for periods of up to 90 days at a time. Under ordinary circumstances a Federal Reserve Bank is prepared to

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grant renewals extending the borrowing for the duration of the demonstrated seasonal need.

No change in monetary policy, for either the short or the long run, was intended or expected to result from the announced revision of the regulation. The revision adopted was in substantially the same form as that previously proposed for comment.

APRIL 4, 1973

LETTER ON LOAN COMMITMENTS

The Board authorized the sending of a letter regarding loan commitments to all State member banks with deposits exceeding $100 million. Similar letters were sent to large national banks by the Comptroller of the Currency and to large insured nonmember banks by the Federal Deposit Insurance Corporation.

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

The purpose of the letter, which was sent over the Chairman's signature, was to express the Board's concern regarding the heavy volume of bank loan commitments then outstanding. The letter read as follows:

I am writing to you about a matter of concern to all members of the Board—the heavy volume of bank loan commitments to commercial and industrial companies and financial institutions. Banks supervised by other Federal banking agencies are receiving similar letters, so that the attention of all banks likely to have substantial loan commitments will be drawn to the need for appropriate loan commitment policies.

By loan commitments we refer to all of your bank's official promises to lend which have been expressly conveyed to your customers, typically by means of either a formally executed commitment agreement or a letter signed by one of your officers confirming the availability of a line of credit of specified size.

There is no question as to the legitimacy of—and the need for—bank loan commitments. They serve the purposes of sound business planning, both for banks and their customers. It is the intention of the Federal bank supervisors that this practice continue, but that it be based on care-

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ful judgment, in the interests of a sound banking system and healthy economic expansion. The apparent large volume of bank commitments currently outstanding and sharply increased takedowns thereunder are indicative of the need for special attention to this subject at this time.

Each bank should maintain a record of the aggregate volume of its commitments to lend. Furthermore, it should periodically make a careful judgment as to the potential volume of takedowns of these commitments under reasonably foreseeable circumstances, including periods of strong as well as weak loan demand, and the appropriateness of the credit risks involved to its overall capital position. Finally, it should give adequate consideration as to how it would obtain the funds to meet such takedowns in sound and timely fashion, giving due allowance to the possibilities for changing conditions in the local and national economy and in the central money markets.

Federal bank examiners will henceforth ask the management of each bank they examine to demonstrate that it is giving adequate attention to the above principles. Steps are also being taken by the bank supervisory authorities to obtain current information periodically as to ongoing developments with respect to bank loan commitments.

We confidently expect that banks will cooperate in this program to help insure that bank loan commitments play a sound and useful role in the financing of business activity.

APRIL 10, 1973

AMENDMENT TO RULES REGARDING DELEGATION OF AUTHORITY

Effective with applications accepted by Reserve Banks after April 23, 1973, the Board amended its Rules Regarding Delegation of Authority to permit the Federal Reserve Banks to approve bank holding company formations involving more than one bank, acquisitions by bank holding companies of existing banks, and certain types of bank mergers.

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

The Board had previously delegated to the Reserve Banks, pursuant to specific guidelines, authority to approve formations of one-bank holding companies and acquisitions by existing bank holding companies of *de novo* banks. In a further effort to expedite handling

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of the volume of applications received under the Bank Holding Company Act, as amended, the Board now made this additional delegation, at the same time setting forth standards within which this authority might be exercised. Applications falling outside these standards were to be forwarded to the Board for further consideration. The Board retained authority to deny an application.

Under the standards adopted, a Reserve Bank was authorized to approve the formation of a bank holding company through the acquisition by a company of a controlling interest in the voting shares of one or more banks, if all of the following conditions were met:

(1) no member of the Board had indicated an objection prior to the Reserve Bank's action;

(2) all departments of the Reserve Bank appropriately involved had recommended approval;

(3) no substantive objection to the proposal had been made by a bank supervisory authority, the U.S. Department of Justice, or a member of the public;

(4) no significant policy issue were raised by the proposal as to which the Board had not expressed its view;

(5) any offer to acquire shares of the bank or banks involved would be extended to all shareholders of the same class on a substantially equal basis;

(6) considerations relating to the convenience and needs of the communities to be served were consistent with or lent weight toward approval of the application;

(7) in the event any debt were incurred by the holding company to purchase shares of any bank involved in the proposal:

(a) an agreed plan for amortization of the debt within a reasonable time existed, such period normally not exceeding 12 years;

(b) the interest rate on any loan to purchase the bank shares would be comparable with that on other stock collateral loans by the lender to persons of comparable credit standing;

(c) no compensating balances, specifically attributable to the loan, would be deposited in the lending institution, and the amount of any correspondent account that the proposed subsidiary bank would maintain with the lending institution should not exceed the amount necessary to compensate the lending bank for correspondent services rendered by it to the proposed subsidiary bank;

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(8) the Reserve Bank determined that the managerial and financial resources, including the equity to debt relationships, of the applicant, its existing subsidiaries, and any proposed subsidiary bank were adequate, or would be adequate within a reasonable period of time after consummation of the proposal, and any debt service requirements to which the holding company might be subject were such as to enable it to maintain the capital adequacy of any proposed subsidiary bank in the foreseeable future;

(9) if the applicant or any of the applicant's existing or proposed nonbanking subsidiaries competed in the same geographic and product market as any proposed subsidiary bank, the resulting organization would control no more than 10 per cent of that product or service line after consummation of the proposal;

(10) total nonbank gross revenues of the applicant and its subsidiaries did not exceed 10 per cent of total operating income of the proposed banking subsidiaries;

(11) if the applicant engaged, or were to engage, in nonbanking activities requiring the Board's approval under Section 4(c)(8) of the Act, the Reserve Bank must also have delegated authority to approve the Section 4(c)(8) activities;

(12) if the proposal involved the acquisition of the controlling stock of only one bank, and any debt were incurred by the holding company to purchase shares of that bank, the amount of the loan did not exceed 75 per cent of the purchase price of the shares of the proposed subsidiary bank;

(13) if the proposal involved the acquisition of the controlling stock of more than one bank, the following additional conditions must be met:

(a) in the event any debt were incurred by the holding company to purchase shares of any proposed subsidiary banks, the total amount of the debt did not exceed 10 per cent of the equity capital accounts of the holding company;

(b) the applicant would control no more than 15 per cent of the total deposits in commercial banks in the State.

Reserve Banks were empowered under delegated authority to approve the acquisition by a bank holding company of a controlling interest in the voting shares of an additional bank, if all of the following conditions were met:

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(1) through (7) plus (11) as listed previously, and;

(8) the Reserve Bank determined that the managerial and financial resources, including the equity to debt relationships, of the applicant, its existing subsidiaries, and any proposed subsidiary bank were adequate, or would be adequate within a reasonable period of time after consummation of the proposal, and any debt service requirements to which the holding company might be subject were such as to enable it to maintain the capital adequacy of any existing or proposed subsidiary bank in the foreseeable future;

(9) if the applicant or any of the applicant's existing or proposed nonbanking subsidiaries competed in the same geographic and product market as any proposed subsidiary, the resulting organization would not control more than 10 per cent of that product or service line after consummation of the proposal;

(10) total nonbank gross revenues of the applicant and its subsidiaries did not exceed 10 per cent of total operating income of the company's existing or proposed banking subsidiaries;

(12) in the event any debt were incurred by the applicant to purchase shares of the bank, the resulting total acquisition debt of the holding company would not exceed 10 per cent of the company's equity capital accounts after consummation of the proposal;

(13) unless the proposed subsidiary were a proposed new bank, the applicant would control no more than 15 per cent of the deposits in the State after consummation of the proposal;

(14) if the bank to be acquired were an existing bank and if no banking offices of applicant's existing subsidiary banks were located in the same market as the proposed subsidiary, the proposed subsidiary had no more than $25 million in deposits or controlled no more than 15 per cent of market deposits;

(15) if the bank to be acquired were an existing bank and if any of the applicant's existing subsidiary banks were competing in the same market as the proposed subsidiary, the applicant would control no more than 10 per cent of market deposits after consummation;

(16) if the bank to be acquired were a proposed new bank, bank subsidiaries of applicant would not hold in the aggregate more than 20 per cent of the commercial bank deposits in the relevant market area and the applicant would not be one of the dominant banking organizations in the State;

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(17) the applicant had a proven record of furnishing to its subsidiaries, when needed, special services, management, capital funds, and general guidance.

Authority to approve a merger, consolidation, acquisition of assets or assumption of liabilities, where the resulting bank was a State member bank, was delegated to the Reserve Banks if all of the following conditions were met:

(1) through (4) as listed earlier, and;

(5) if the banks did not have offices in the same market, the bank to be acquired had no more than $25 million in deposits or controlled no more than 15 per cent of market deposits;

(6) if the banks competed in the same banking market, the resulting bank would control no more than 10 per cent of market deposits;

(7) if a parent holding company or any of its subsidiaries competed in the same geographic and product market as the bank to be acquired or any of its subsidiaries, the holding company would control no more than 10 per cent of that product or service line after consummation of the proposal;

(8) the Reserve Bank determined that the managerial and financial resources, including the equity capital accounts of the resulting bank, were adequate, or would be adequate within a reasonable period of time after the proposal was consummated;

(9) considerations relating to the convenience and needs of the communities to be served were consistent with, or lent weight toward, approval of the application.

Governor Robertson based his dissent on the view that expansion of bank holding companies through acquisition or merger was too sensitive a matter to be delegated to the Reserve Banks.

MAY 10, 1973

AMENDMENTS TO MARGIN REGULATIONS

The Board adopted amendments to its margin regulations designed to prevent the excessive use of credit in connection with the sale of puts and calls, which are options to sell or buy stocks. The amendments became effective on May 23, 1973, with respect to Regulation G, Securities

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Credit by Persons Other Than Banks, Brokers, or Dealers, and Regulation T, Credit by Brokers and Dealers, and on June 16, 1973, with respect to Regulation U, Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks.

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

The amendments denied loan value to all puts and calls, including those registered on a national securities exchange; stated that any margin required in connection with the issuance, endorsement, or guarantee of a put or call must not be used in a margin account to purchase other securities; and included puts and calls within the definition of "equity security" to make it clear that bank loans on puts and calls are subject to Regulation U. This last change brought the definition of "stock" in Regulation U into conformity with the statutory definition of equity security in accordance with an amendment, effective June 15, 1973, to Securities and Exchange Commission Rules.

MAY 16, 1973

MONETARY POLICY ACTIONS

The Board took a series of actions designed to curb the rapid expansion in bank credit and help moderate inflationary pressures, and at the same time to assure the availability of credit on a reasonable scale.

Votes for these actions: Messrs. Burns, Daane, Brimmer, Sheehan, and Bucher. Votes against these actions: None. Absent and not voting: Mr. Mitchell.[1]

The actions were taken against the background of an unusually strong expansion in bank credit, stimulated to a considerable extent by increased business spending for capital investment and inventory accumulation. The actions were designed to help the existing policy

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

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of monetary restraint moderate this expansion. Recent growth in bank credit to major business corporations had been financed in large part by increases in the issuance of money market instruments of the kinds covered by the actions taken.

Business borrowing from commercial banks had increased by about $15 billion during the first 4 months of 1973. This increase had been only partially offset by the reduced use of commercial paper by businesses to obtain funds. To meet the demand for a rising volume of business loans, commercial banks had obtained funds mainly through the sale of large negotiable certificates of deposit (CD's), which also had increased by about $15 billion over this period.

The actions taken were as follows:

1. Amendment to Regulation D, Reserves of Member Banks

Effective June 21, 1973, the Board amended the Supplement to Regulation D to establish a marginal reserve requirement of 8 per cent against increases in time deposits over the amounts outstanding during the computation period ending May 16, 1973.

The new 8 per cent marginal reserve requirement (which represented the previously established reserve of 5 per cent plus a supplemental 3 per cent) would be applied to the total of single-maturity, large-denomination CD's and bank-related commercial paper issued by a member bank beginning June 7, to the extent that this volume exceeded the average amount outstanding in the statement week ending May 16. In no case would the marginal reserve apply to an amount outstanding of less than $10 million. Under the amendment the base for computing the marginal reserve requirement remained unchanged for each bank, regardless of the level of its holdings of CD's and commercial paper in the future.

2. Amendments to Regulation D, Reserves of Member Banks, and Regulation M, Foreign Activities of National Banks

The Board amended both the Supplement to Regulation D and Regulation M to reduce from 20 to 8 per cent the reserve requirement on certain foreign borrowings of U.S. banks, primarily Euro-dollars, thus affording roughly parallel treatment with the marginal reserve requirement on large-denomination CD's and bank-related commercial paper.

The Board also acted to eliminate gradually the reserve-free bases still held by some banks subject to this measure.

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In September 1972 the Board had published for comment a proposal to reduce from 20 to 10 per cent the reserve requirement on Euro-dollar borrowings by member banks and on loans by their foreign branches to U.S. residents and to eliminate reserve-free bases, which had been exempting from reserve requirements some portion of those borrowings or loans. After consideration of comments received, the Board acted (1) to reduce the reserve requirement on member banks' Euro-dollar borrowings and foreign branch loans to U.S. residents from 20 to 8 per cent, (2) to eliminate the reserve-free bases exempting from reserve requirements some portion of member banks' foreign branch loans to U.S. residents, and (3) to phase out over a period of approximately 8 months such reserve-free bases.

Under the amendments the reduced rate of reserve requirements applied to reserves required to be maintained during the period beginning on June 21, 1973, which were based on the computation period extending from May 10, 1973, to June 6, 1973, and the reserve-free bases relating to member banks' foreign branch loans to U.S. residents were eliminated from calculations of this period and thereafter. In phasing out the reserve-free bases available to banks subject to this marginal reserve requirement, bases were reduced by 10 per cent in each 4-week computation period beginning with the period starting July 5. According to this schedule the bases will be eliminated in the computation period beginning March 14, 1974.

3. Amendment to Regulation Q, Interest on Deposits

Effective immediately, the Board amended the Supplement to Regulation Q to suspend, for the time being, the limitation on the rate of interest that a member bank may pay on a single-maturity time deposit of $100,000 or more that matures in 90 days or more. Interest rate ceilings on large CD's with maturities of less than 90 days had been suspended in June 1970.

This action was taken to permit member commercial banks to maintain a balanced structure of deposits. Because of recent advances in market rates, the ceiling rates on longer-maturity deposits had practically precluded banks from using long-term CD's; hence the great bulk of the large CD's being issued had maturities of less than 90 days.

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Interest rate ceilings remained unchanged on all other types of bank deposits, including passbook accounts and consumer-type CD's (those of less than $100,000).

4. Interpretation regarding ineligible acceptances

The Board issued an interpretation stating that, in the absence of any indication of congressional intent for a broader application, only acceptances eligible for discount at Federal Reserve Banks would be subject to limitations on amounts outstanding as set forth in Section 13 of the Federal Reserve Act.

Previously both the Board and the Comptroller of the Currency had ruled that banks within their supervisory jurisdictions might make acceptances that were not of the type described in Section 13.

5. Letter urging cooperation

The Board urged all banks to observe the spirit, as well as the letter, of the Board's actions in a concerted effort to curb bank credit expansion and to moderate inflationary pressures.

In this connection the following letter signed by the Chairman was sent to about 190 of the largest nonmember banks to seek their assistance and cooperation in ensuring the effectiveness of this program:

I earnestly seek your assistance and cooperation in ensuring that actions taken by the Federal Reserve System today in the interest of a healthy national economy can effectively accomplish this objective.

The Board of Governors of the Federal Reserve System has taken two actions that affect large time certificates of deposit issued by member banks. One action is to suspend maximum interest rate ceilings on such deposits with maturities of more than 89 days; the ceiling rate of deposits of 30-89 day maturity had been suspended since June 27, 1970. The Federal Deposit Insurance Corporation has taken a similar action with respect to insured banks that are not members of the Federal Reserve System. With market interest rates relatively high, the suspension of ceilings across the board will enable banks to compete in all maturity sectors of the short-term market and thereby permit them to establish a balanced maturity structure for outstanding large certificates of deposit.

The other action taken by the Federal Reserve Board has been to impose a marginal reserve requirement on the total of funds raised from the issuance of (1) single-maturity time deposits of $100,000 or more,

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(2) deposits represented by certain commercial paper obligations such as promissory notes, acknowledgements of advances, and due bills, and (3) funds obtained by the bank from obligations issued by affiliates and subsidiaries of the bank. The Board has also published for comment a proposal to establish reserve requirements, including marginal reserve requirements, on funds obtained from the sale of finance bills (also termed ineligible acceptances), the proceeds of which are used by the bank.

The marginal reserve requirement action means that member banks must maintain additional reserves equal to 3 per cent of any growth in the total of deposits and liabilities specified above in excess of a base amount. The base for computing the marginal reserve will be the amount outstanding in the week ended May 16, 1973, or $10 million, whichever is greater. Thus, for a member bank the reser
to the excess of such deposits above the base level would generally be 8 per cent—the continuing 5 per cent requirement on large denomination time deposits and other similar domestic money market instruments, plus the marginal 3 per cent requirement.

The reserve requirement action was taken by the Board in an effort to restrain bank credit growth as part of the nation's anti-inflationary program. The effectiveness of this action in the essential task of combating inflation would be enhanced if it applied generally throughout the banking community. Accordingly, I very much hope you will see fit to conform to the additional 3 per cent marginal reserve as described above. A copy of the *Federal Register* notice implementing the marginal reserve is attached for your information and guidance.

For a nonmember bank, the additional marginal reserve should be maintained with a member of the Federal Reserve System of your choosing. The member bank receiving the deposit will be expected to redeposit these balances with its Federal Reserve Bank. Operating procedures will be provided by the Federal Reserve Bank and your designated correspondent.

I assure you that the request I am now making of you will be withdrawn at the earliest possible time consistent with the national interest. Your cooperation can play a significant role in restraining inflation and in returning the economy to a more normal course.

MAY 21 AND MAY 29, 1973

LETTERS URGING LOAN RESTRAINT

On May 21, 1973, the Board authorized the sending of a letter signed by the Chairman to all member banks requesting their cooperation in assuring that the rate of credit extension be appropriately disciplined.

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

The letter, which was intended to complement the series of regulatory measures previously taken in an effort to curb the rapid expansion in bank credit, read as follows:

Some key segments of the Nation's economy are now growing at an unsustainable pace, thereby adding substantially to inflationary pressures. Since excessive bank loan expansion is a factor in this development, the Federal Reserve last week supplemented its previous policy actions by adopting several regulatory amendments with a view to further curbing such expansion. I am writing to you and every other member bank today on behalf of the Board to give emphasis to these recent actions and to invite your personal cooperation in assuring that the rate of credit extension by your bank is appropriately disciplined.

The national interest calls for bankers to exercise financial statesmanship at this time. You and your colleagues can meet this need by intensifying your scrutiny of credit applications and by resisting excessive credit demands. A corollary requirement is the exercise of prudence in issuing large-denomination certificates of deposit and in borrowing from nondeposit sources. It is also appropriate that banks, while exercising this restraint, continue to give special consideration in using their limited supplies of lendable funds to the accommodation of credit needs originating within their local communities.

All of us have a stake in slowing the pace of inflation and achieving the basis for a lasting economic prosperity. Greater prudence in the extension of credit can contribute importantly to that goal. I look forward to your earnest cooperation in this endeavor.

On May 29, 1973, the Board also authorized the sending of a letter signed by the Chairman to approximately 100 foreign-owned banking institutions in the United States, including agencies and branches of foreign banks, subsidiary banks, and investment companies. The purpose of the letter was to request their voluntary cooperation in assuring that the rate of bank credit expansion in the United States be restrained.

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

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

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The letter read as follows:

I am writing to seek your assistance in ensuring that recent actions taken by the Federal Reserve System in the interest of a healthy national economy can effectively accomplish this objective. Moderating inflation in the United States will benefit not only this country but also other nations and the international financial system.

As you know, the Board of Governors of the Federal Reserve System recently imposed a marginal reserve requirement of 3 per cent—over and above the 5 per cent previously required—on further increases in the total of funds raised by member banks from the issuance of (1) single-maturity time deposits of $100,000 or more, (2) deposits represented by certain commercial paper obligations such as promissory notes, acknowledgements of advances, and due bills, and (3) funds obtained by the bank from obligations issued by affiliates and subsidiaries of the bank. In addition, the Board set the reserve requirement at 8 per cent on increases, above a base that is being phased out, in certain foreign borrowings—primarily Euro-dollars—by U.S. member banks.

We believe that the effectiveness of the Board's recent actions in combating inflation would be substantially enhanced if you would conform to the 8 per cent reserve on any increase in your borrowings from banks abroad, including your head office. With respect to such increases, this treatment would parallel the reserves maintained by member banks against similar types of borrowings. For agencies, branches, investment companies affiliated with foreign banks, and U.S. subsidiaries of foreign banks, we would propose that the 8 per cent reserve be maintained against any additional increases in net funds obtained from foreign banks over the amounts obtained on average during the month of May. The amounts to be included would consist of net balances due to directly related institutions abroad together with net time deposits of and net borrowings from other foreign banks.

In addition to your cooperation with regard to the 8 per cent reserve on increased borrowings from foreign banks, we also invite your cooperation in conforming to the marginal reserve on deposits and liabilities noted above (first sentence of the second paragraph). This marginal reserve, as it applies to member banks, means that they must maintain additional reserves equal to 3 per cent of any growth in the total of the deposits and liabilities specified above in excess of a base amount. The base for computing the marginal reserve is the amount outstanding in the week ended May 16, 1973, or $10 million, whichever is greater.

As in the case of domestic nonmember banks—whom I have already requested to conform to the marginal reserve proposals—the additional

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reserves maintained by an agency, branch, investment company, or subsidiary should be deposited with a member bank of the Federal Reserve System of your choosing. The reserves as maintained would include the 8 per cent reserve on foreign borrowings and the 3 per cent marginal reserve on the other specified deposits and liabilities. The member bank receiving the deposit will be expected to redeposit 100 per cent of all such balances with its Federal Reserve Bank. Operating procedures, and details regarding the appropriate bases, will be provided by the Federal Reserve Bank.

I look forward to your cooperation in this voluntary program of credit restraint. Success in combating excessive increases in credit in this period is a matter of great national importance.

MAY 31, 1973

AMENDMENT TO REGULATION M, FOREIGN ACTIVITIES OF NATIONAL BANKS

Effective June 21, 1973, the Board amended Regulation M so as to exclude from the computation of reserve requirements thereunder credit extended (1) in the aggregate amount of $100,000 or less to any U.S. resident or (2) by a foreign branch that at no time during the computation period had had credit outstanding to U.S. residents exceeding $1 million.

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

The purpose of the amendment was to minimize the administrative burden on member banks of complying with reserve requirements relating to extensions of credit by their foreign branches to U.S. residents. The amendment, which was to become effective on the same date as previously adopted amendments to reserve requirement regulations, removed from the reserve requirements of Regulation M credits extended that were of such small amounts as were unlikely to be significant as a moderate restraint on over-all increases in member banks' Euro-dollar borrowings.

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

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MAY 31, 1973

REGULATION K, CORPORATIONS ENGAGED IN FOREIGN BANKING AND FINANCING UNDER THE FEDERAL RESERVE ACT, AND REGULATION M, FOREIGN ACTIVITIES OF NATIONAL BANKS

The Board issued an interpretation of Regulations K and M in the form of a statement of policy regarding availability of information pertaining to member banks' foreign branches and subsidiaries to enable proper supervision of those operations. The purpose of the statement was to give guidance to member banks having foreign operations.

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

The statement was as follows:

(1) The Board of Governors of the Federal Reserve System, as a central bank, is properly concerned with the preservation and promotion of a sound banking system in the United States. The Board of Governors and other Federal banking supervisory authorities have been given specific statutory responsibilities to assure that banking institutions are operated in a safe and prudent manner affording protection to depositors and providing adequate and efficient banking services to the public on a continuing basis. These responsibilities and concerns are shared by central banks and bank supervisors the world over.

(2) Under Sections 25 and 25(a) of the Federal Reserve Act, the Board has particular responsibilities to supervise the international operations of member banks in the public interest. In carrying out these responsibilities, the Board has sought to assure that the international operations of member banks would not only foster the foreign commerce of the United States but that they would also be conducted so as not to encroach on the maintenance of a sound and effective banking structure in the United States. In keeping with the latter consideration, the Board believes it incumbent upon member banks to supervise and administer their foreign branches and subsidiaries in such a manner as to

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

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assure that their operations are conducted at all times in accordance with high standards of banking and financial prudence.

(3) Proper administration and supervision of foreign branches and subsidiaries require the use of effective systems of records, controls, and reports that will keep the bank's management informed of the activities and condition of its branches and subsidiaries. At a minimum, such systems should provide the following:

(a) Risk assets. To permit assessment of exposure to loss, information furnished or available to head office should be sufficient to permit periodic and systematic appraisals of the quality of loans and other extensions of credit. Coverage should extend to a substantial proportion of the risk assets in the branch or subsidiary, and include the status of all large credit lines and of credits to customers also borrowing from other offices of the bank. Information on credit extensions should include (i) a recent financial statement of the borrower and current information on his financial condition; (ii) credit terms, conditions, and collateral; (iii) data on any guarantors; (iv) payment history; and (v) status of corrective measures employed.

(b) Liquidity. To enable assessment of local management's ability to meet its obligations from available resources, reports should identify the general sources and character of the deposits, borrowings, and so forth, employed in the branch or subsidiary with special reference to their terms and volatility. Information should be available on sources of liquidity—cash, balances with banks, marketable securities, and repayment flows—such as will reveal their accessibility in time and any risk elements involved.

(c) Contingencies. Data on the volume and nature of contingent items such as loan commitments and guaranties or their equivalents that permit analysis of potential risk exposure and liquidity requirements.

(d) Controls. Reports on the internal and external audits of the branch or subsidiary in sufficient detail to permit determination of conformance to auditing guidelines. Such reports should cover (i) verification and identification of entries on financial statements; (ii) income and expense accounts, including descriptions of significant charge-offs and recoveries; (iii) operation of dual-control procedures and other internal controls; (iv) conformance to head-office guidelines on loans, deposits, foreign exchange activities, proper accounting procedures, and discretionary authority of local management; (v) compliance with local laws and regulations; and (vi) compliance with applicable U.S. laws and regulations.

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JUNE 18, 1973

AMENDMENT TO REGULATION D, RESERVES OF MEMBER BANKS

Effective July 12, 1973, the Board amended Regulation D to provide that funds raised by member banks through the use of acceptances of the type not eligible for discount at a Federal Reserve Bank be made subject to reserve requirements.

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

The amendment adopted was in the same form as the proposal issued for comment by the Board on May 16 and was part of a series of actions designed to curb rapid expansion of bank credit, help moderate inflationary pressures, and assure the availability of credit on a reasonable scale.

Under the amendment the sale of finance bills was treated as equivalent to deposits subject to reserve requirements if a member bank made an acceptance that was not eligible for discount at a Federal Reserve Bank, sold the acceptance, and then used the proceeds in its banking business. A basic 5 per cent reserve requirement was applied to all outstanding finance bills that had a maturity of 30 days or more at the time of sale. An additional 3 per cent reserve requirement was applied to the total of funds raised through (1) finance bills, (2) large ($100,000 and over) CD's (or other single-maturity time deposits of like size), and (3) bank-related commercial paper, to the extent the total exceeded the level outstanding during the week ended May 16 or $10 million, whichever was larger. Member banks were required to include finance bills in their reserve calculations for the week beginning June 28 and to hold the reserves in the week beginning July 12.

JUNE 29, 1973

AMENDMENT TO REGULATION D, RESERVES OF MEMBER BANKS

Effective July 19, 1973, the Supplement to Regulation D was amended to increase reserve requirements on all but the first $2 million of net demand deposits at member banks by ½ of 1 percentage point.

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

This action was taken as a further step in an effort to restrain continuing excessive expansion in money and credit. The amendment had the effect of requiring each member bank to maintain on deposit with the Federal Reserve Bank of its district: (1) 8 per cent of its net demand deposits if its aggregate net demand deposits were $2 million or less; (2) $160,000 plus 10½ per cent of its net demand deposits in excess of $2 million if its aggregate net demand deposits were in excess of $2 million but less than $10 million; (3) $1 million plus 12½ per cent of its net demand deposits in excess of $10 million if its aggregate net demand deposits were in excess of $10 million but less than $100 million; (4) $12.25 million plus 13½ per cent of its net demand deposits in excess of $100 million if its aggregate net demand deposits were in excess of $100 million but less than $400 million; or (5) $52.75 million plus 18 per cent of its net demand deposits in excess of $400 million.

JUNE 29, 1973

AMENDMENT TO REGULATION Z, TRUTH IN LENDING

Effective November 1, 1973, the Board amended Regulation Z for the purpose of simplifying and clarifying advertising restrictions of the regulation.

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

Regulation Z generally provides that if a specific credit term is advertised, the other credit terms applicable to the credit plan must also be shown. Because of the amount of information required, creditors had for the most part stopped advertising open-end credit plans —such as revolving charge accounts and bank credit cards—other than in a general way.

The amendment reduced, to the minimum requirements of the Truth in Lending Act, the amount of information a creditor must furnish, once a specific term was used, in order to encourage creditors to advertise specific provisions of their credit plans, thus giving

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consumers more useful information for comparison of credit terms. The amendment also incorporated into the regulation several changes in the advertising provisions relating to instalment credit, as well as technical changes that had been suggested following publication of the proposal for comment in December 1972.

At the same time an interpretation was issued specifying that answers to oral inquiries about the cost of consumer credit must be in terms of "annual percentage rates" and not in terms of add-on or discount rates.

JULY 5, 1973

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS

Effective July 1, 1973, the Board amended the Supplement to Regulation Q to increase the maximum rates of interest that member banks may pay on time and savings deposits and to suspend the limitation on the rate of interest that a member bank may pay on a single-maturity time deposit of $1,000 or more with a maturity of 4 years or more.

Effective immediately, the Board also amended its rules on the payment of time deposits by member banks prior to maturity.

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

Revisions in the interest rate ceilings were designed (1) to provide room within the ceilings for a greater measure of equity in the payment of interest to consumers, in an environment of generally rising interest rates, and (2) to enable member banks to bid more effectively for consumer deposits in competition with the yields available to savers on market securities.

The schedule of ceilings, applicable to both single- and multiple-maturity deposits of less than $100,000 at member banks, was revised as follows:

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Maturity	New ceilings (per cent)	Old ceilings (per cent)
Passbook accounts	5	4½
30 days to 89 days	5	4½ (for multiple-maturity time deposits) 5 (for single-maturity time deposits)
90 days to 1 year	5½	5
1 year to 2½ years	6	5½ (for deposits of 1 year to 2 years) 5¾ (for deposits of 2 years and over)
2½ years and over	6½	5¾ (for deposits of 2 years and over)
4 years and over	No ceiling with minimum denomination of $1,000	5¾ (for deposits of 2 years and over)

This action was taken after consultation with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, which announced similar changes with respect to the Federally insured State-chartered nonmember banks, mutual savings banks, and savings and loan associations under their respective jurisdictions.

In a related action the Board amended Regulation Q to change the rules governing payment of a time deposit before maturity. This action was taken in an effort to achieve uniform standards among the Federal supervisory agencies with respect to imposition of penalties for the withdrawal of time deposits before maturity. Formerly, under Regulation Q, a time deposit could be paid before maturity only in an emergency where it was necessary to prevent great hardship to the depositor. Under the revision adopted, a bank may pay a time deposit at any time before maturity, but only at a reduced rate of interest to the depositor. In such a case a member bank may pay

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interest at the passbook rate on the amount withdrawn, provided the depositor forfeits 3 months' interest at that rate. When a bank permits funds on deposit for less than 3 months to be withdrawn before maturity, all interest is forfeited.

JULY 12, 1973

AMENDMENT TO REGULATION Z, TRUTH IN LENDING

Effective January 1, 1974, the Board amended Regulation Z regarding disclosure of unearned finance charge rebates.

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

The purpose of this amendment was to require creditors who do not provide rebates of the unearned portion of a finance charge in the event of prepayment in full of an instalment contract to disclose this fact to consumers on the truth-in-lending disclosure form. Previously, Regulation Z had required those creditors who made rebates to identify the rebate method, but it had not required the creditor who did not make rebates to disclose that fact. As adopted, the amendment included certain technical changes that were suggested following publication of the proposal for comment in May 1973.

JULY 16, 1973

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

The Board adopted amendments to the Supplements to Regulation D and Regulation Q designed to treat multiple-maturity time deposits in the same manner as single-maturity time deposits.

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

Recently, the Board had imposed an 8 per cent marginal reserve requirement (which represented the previously established reserve of

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5 per cent plus a supplemental 3 per cent) on the total of single-maturity, large-denomination time deposits, bank-related commercial paper, and finance bills in excess of the amount of such instruments outstanding during the week ending May 16, 1973, and had removed interest rate ceilings on large ($100,000 or more) single-maturity time deposits that mature in 90 days or more.

Under the action now taken, the Supplement to Regulation Q was amended, effective immediately, to treat multiple-maturity time deposits in the same manner as single-maturity time deposits with respect to the maximum rates of interest payable by member banks on such deposits. At the same time the Supplement to Regulation D was amended, effective August 30, 1973, to apply the 8 per cent marginal reserve requirement to multiple-maturity time deposits of $100,000 or more in the same manner as it is applied to single-maturity time deposits in such denominations. The amendment to Regulation D also clarified the fact that marginal reserve requirements do not apply to time deposits of less than $100,000 on which interest rate ceilings have been removed.

JULY 19, 1973

AMENDMENT TO VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES

The Board authorized the issuance of a clarifying statement on the voluntary foreign credit restraint (VFCR) program guidelines to provide a specific formula for restraint of foreign lending and investment by agencies and branches of foreign banks.

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

Previously, agencies and branches of foreign banks had not been assigned specific lending ceilings under the VFCR program, as was the case with U.S. banks. Instead, they had been asked to conform to the spirit of the guidelines, to consult with the Federal Reserve Bank in their district about such guidelines, and to report monthly on their foreign lending. As activities of the agencies and branches grew, the lack of specific guidelines produced some unevenness in

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observance of the program. This situation now prompted the Board to request agencies and branches not to increase their foreign assets covered by the program above the levels of June 30, 1973, except to the extent that additional funds were obtained outside the United States.

The amendment adopted did not change the degree of restraint on covered institutions as a whole; rather, it was designed to ensure uniformity in observance of the program. The formula tied the restraint to the amount of funds the agencies and branches might obtain from their parent banks and other foreigners. Unlike U.S. banks, the agencies and branches rely mainly on foreign sources of funds for their banking activities.

JULY 24, 1973

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS

Effective immediately, the Board amended Regulation Q to clarify the nature of the penalties—originally set forth in the amendment adopted July 5—that apply to various types of deposit contracts if funds are withdrawn before maturity.

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

Under the early withdrawal rule that went into effect July 5, 1973, a time deposit might be withdrawn before maturity only with a forfeiture of interest. In the clarifying action now taken, the Board spelled out the types of contracts to which this new rule would apply: namely, time deposits entered into after July 5; contracts amended after July 5 to increase the rate of interest or to extend the maturity of the deposit; and contracts renewed after July 5, whether by automatic renewal or otherwise.

All other time deposit contracts continued to be subject to the old rule, which states that a bank may pay a time deposit before maturity only in an emergency where it is necessary to prevent great hardship to the depositor. In such cases, the depositor would forfeit accrued and unpaid interest for a period of up to 3 months.

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JULY 26, 1973

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS

Effective immediately, the Board amended the Supplement to Regulation Q to impose a percentage limitation on the amount of time deposits that may be issued by member banks in denominations of $1,000 or more with maturities of 4 years or more on which no maximum rate of interest is prescribed.

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

On July 5 the Board had increased the maximum rates of interest that member banks might pay on savings and other consumer-type deposits and had established a new category of time deposit—with maturity of 4 years or more and minimum denomination of $1,000—on which member banks were not limited as to the rate of interest they might pay.

The action now taken limited the amount of such certificates that a bank may issue to 5 per cent of its total time and savings deposits. The purpose of this action was to provide for the introduction of these new savings instruments at an orderly pace. Any of these certificates sold by a bank in excess of the 5 per cent limitation would be subject to the existing interest rate ceiling of 6½ per cent applied to time deposits maturing in 2½ years or more.

AUGUST 23, 1973

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS

Effective September 10, 1973, the Board amended Regulation Q so as to treat as a payment of a time deposit before maturity any amendment to a time deposit contract that would result in either an increase in interest rate or a change in the maturity of the deposit.

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

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The purpose of this amendment was to apply the penalty provisions for early withdrawals of time deposits to changes in deposit contracts. The amendment was in the same form as that previously published for comment.

This action was taken after consideration of comments received, and following consultation with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board.

SEPTEMBER 7, 1973

AMENDMENT TO REGULATION D, RESERVES OF MEMBER BANKS

Effective October 4, 1973, the Board amended the Supplement to Regulation D to increase marginal reserve requirements on large-denomination CD's, bank-related commercial paper, and finance bills.

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

This action was taken as a further move to curb the rapid expansion in bank credit, which growth had been financed in large part by bank sales of CD's of $100,000 or more and similar money market instruments. On May 16 the Board had imposed an 8 per cent marginal reserve requirement on further increases in time deposits in denominations of $100,000 or more and on bank-related commercial paper (the previously established reserve of 5 per cent plus a supplemental 3 per cent); subsequently, a similar reserve requirement had been applied to funds raised by banks through the sale of finance bills. The Board now amended the Supplement to Regulation D to increase the marginal reserve requirement from 8 to 11 per cent, subject to the proviso that in no event should the reserves required of a member bank on its aggregate amount of time and savings deposits exceed 10 per cent.

Messrs. Sheehan and Bucher dissented from this action on the grounds that bankers were increasingly practicing self-restraint in the issuance of large-denomination CD's and in the granting of credit to business firms, and that such restraint, coupled with the restraints of monetary policy already in effect, was sufficient under current conditions.

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Subsequently, letters were sent over the signature of the Chairman to certain nonmember banks requesting voluntary compliance with the increased marginal reserve requirement.

SEPTEMBER 11, 1973

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS

Effective September 18, 1973, the Board amended Regulation Q to provide clear disclosure of interest rate penalties applicable in the event a time deposit were paid before maturity.

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

Under the amendment a member bank was required (1) to disclose, in its advertising of interest paid on time deposits, that Federal law and regulation prohibit the payment of a time deposit prior to maturity unless substantial interest is forfeited, and (2) to give to each bank customer who enters into a time deposit contract a written statement specifying that the customer has contracted to keep funds on deposit for a fixed period of time and describing how the early withdrawal penalty would apply in the event the bank permitted payment before maturity.

The early withdrawal penalty, which is the subject of the disclosure provision, has two parts: (1) The rate of interest is reduced to the maximum permissible passbook rate for the period the deposit is held, and (2) interest for 3 months is forfeited.

As adopted, the amendment was in substantially the same form as that previously proposed for public comment, although some technical changes had been made in light of comments received.

SEPTEMBER 14, 1973

AMENDMENT TO REGULATION G, SECURITIES CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS

Effective October 29, 1973, the Board amended Regulation G to delete the "single credit rule" in Section 207.4(a)(2)(i) and to substitute the provision that each extension of credit pursuant to that section may be treated separately.

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

The Board acted to relax Regulation G in order to remove certain unnecessary hardships. Under the amended regulation, borrowers who obtain credit regularly from their companies (or related plan-lender organizations) to buy their companies' stock under purchase or option plans would be allowed to get the stock as soon as the prescribed repayments had been made over the 3-year period mentioned in the regulation. Under the regulation as previously structured, a borrower who had made more than one purchase of stock on credit might have had to wait more than 3 years to get the stock.

SEPTEMBER 27, 1973

AMENDMENT TO REGULATION P, MINIMUM SECURITY DEVICES AND PROCEDURES FOR FEDERAL RESERVE BANKS AND STATE MEMBER BANKS

Effective November 1, 1973, the Board revised Appendix A of Regulation P in order to clarify the standards with which Federal Reserve Banks and State member banks must comply (unless noncompliance is fully explained) regarding the installation, maintenance, and operation of security devices to discourage robberies, burglaries, and larcenies and to assist in the identification and apprehension of persons who commit such acts.

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

The revisions adopted were mainly technical in nature and were similar to the changes proposed for comment by the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board in January 1973. They included a definition of requirements for vaults as distinguished from safes, protection standards for cash-dispensing machines, and a clarification of the requirement that safe-deposit boxes be stored in an approved vault or safe.

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Under Regulation P, if a bank decides not to install, maintain, or operate devices that meet the minimum standards for bank security, as defined in Appendix A of the regulation, it is required to forward to the Reserve Bank in its district a statement of reasons for its decision.

OCTOBER 12, 1973

AMENDMENT TO RULES REGARDING DELEGATION OF AUTHORITY

Effective immediately, the Board amended its Rules Regarding Delegation of Authority to eliminate one of the criteria that Reserve Banks must consider in processing applications under the Bank Holding Company Act.

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

In April 1973 the Board had delegated to the Reserve Banks authority to approve certain bank holding company formations and acquisitions involving existing banks, at the same time setting forth criteria within which this authority might be exercised.

Under the amendment now adopted, the criterion that an equal offer must be made to all shareholders of the bank to be acquired was eliminated. This action represented acquiescence in a recent ruling by the U.S. Court of Appeals for the Tenth Circuit. The Court held that the Board lacked statutory authority under the Bank Holding Company Act to apply as a determinative standard, in acting on an application for a bank holding company acquisition, a requirement of equal offer to all involved shareholders. Thus, denial of an application solely on this basis was held to be beyond the Board's statutory authority.

OCTOBER 17, 1973

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS

Effective November 1, 1973, the Board amended the Supplement to Regulation Q to prescribe a limit on the maximum rates of interest paya-

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ble by member banks on time deposits with maturities of 4 years or more and in denominations of at least $1,000 but less than $100,000.

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

On July 5 the Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board had established as an experiment a new category of savings instrument free of any interest rate ceiling. The new category was limited to instruments having a maturity of at least 4 years and a denomination of at least $1,000 but less than $100,000.

Subsequent legislation required the regulatory agencies to impose an interest rate limitation on all time deposits issued in denominations of less than $100,000.

Under the amendment adopted in compliance with this legislation, the Board set a ceiling rate of interest of 7¼ per cent on consumer-type time deposits issued by member banks with a maturity of 4 years or more and a denomination of at least $1,000 but less than $100,000. At the same time, the Board removed from the regulation the existing provision limiting issuance of such 4-year certificates to 5 per cent of a member bank's total time and savings deposits.

The effective date of the amendment was deferred until November 1, 1973, to provide member banks an opportunity to terminate in an orderly manner the offering of the "no ceiling" time deposits.

The Board's actions followed consultation with the U.S. Treasury Department, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board. The latter two agencies announced similar actions for institutions under their respective jurisdictions.

NOVEMBER 6, 1973

AMENDMENT TO REGULATION Y, BANK HOLDING COMPANIES

Effective November 15, 1973, the Board amended Regulation Y to permit bank holding companies to engage in the courier-service business subject to an extensive set of limitations and conditions designed to enhance competition and ensure other public benefits.

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

In November 1971 the Board had ordered a hearing to consider whether armored car and courier services should be added to the list of activities found by the Board to be permissible for bank holding companies. After consideration of all relevant aspects, including the record of hearings and written comments received, the Board concluded that certain courier services were closely related to banking or managing or controlling banks and, accordingly, it acted to add such courier activities to the list of permissible activities for bank holding companies. The Board took no action with regard to armored car services since it found the hearing record inconclusive in this respect.

Under the amendment adopted, bank holding companies were permitted to provide, subject to approval of individual applications, courier services for (1) the internal operations of the applying holding company and its subsidiaries; (2) checks, commercial papers, documents, and written instruments such as are exchanged among banks and banking institutions (excluding currency and bearer-type negotiable instruments); and (3) data-processing materials, such as audit and accounting media of a banking or financial nature, and business records and documents used in processing such media.

In connection with the action taken, the Board also issued an interpretation regarding the scope of courier activities it intended to permit, and set forth the following three principles intended to minimize the possibility of unfair competition among couriers: (1) A holding company courier subsidiary should be a separate independent corporate entity, not merely a servicing arm of a bank; (2) as such, the subsidiary should exist as a separate, profit-oriented operation, and it should not be subsidized by the holding company system; and (3) services performed should be explicitly priced; they should not be paid for indirectly—as for example, on the basis of deposits maintained at, or loan arrangements with, affiliated banks.

In accordance with those principles, the Board indicated that it would condition applications for entry of holding companies into

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courier activities on the basis of Section 4(c)(8) of the Bank Holding Company Act as follows:

The courier subsidiary shall perform services on an explicit fee basis and shall be structured as an individual profit center designed to be operated on a profitable basis. The Board may regard operating losses sustained over an extended period as being inconsistent with continued authority to engage in courier services.

Courier services performed on behalf of an affiliate's customer shall be paid for by the customer on a direct basis, and not by indirect arrangements.

The courier subsidiary should make publicly known its minimum rate schedule for performing services; must furnish comparable services at comparable rates for any requesting bank or data-processing firm providing financially related data-processing services unless compliance would be beyond the courier subsidiary's practical capacity; and will be expected to maintain, for at least 2 years, any applications for service that it denies, together with its reasons.

NOVEMBER 6, 1973

LIMITATION ON ACTIVITIES OF FORMER MEMBERS AND EMPLOYEES OF THE BOARD

Effective November 6, 1973, the Board adopted rules to limit personal appearances before the Board or a Federal Reserve Bank by former members and employees of the Board in matters connected with their duties or official responsibilities while serving with the Board.

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

Although the Federal Criminal Code applies criminal sanctions against former officers and employees of the Government whose activities involve a conflict of interest or an appearance of such conflict, the Board concluded that the imposition of limitations on personal appearances before the Board or the Federal Reserve Banks would provide additional protection to the public as well as to both present and former employees.

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As adopted, the amendment was in substantially the same form as that proposed for comment on September 21.

NOVEMBER 26, 1973

AMENDMENT TO REGULATION D, RESERVES OF MEMBER BANKS

The Board amended Regulation D to clarify the definition of "gross demand deposits" for purposes of calculating reserves.

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

Under the amendment adopted, gross demand deposits include any obligation to pay a check (or other instrument, device, or arrangement for the transfer of funds) drawn on a member bank, where the account of the bank's customer has already been debited but payment on the check has not yet been made.

Previously, upon being presented with checks from another bank in the late afternoon or evening, some member banks had been following the practice of debiting their customers' checking accounts on the day the checks were received, while not making settlement with the presenting bank until the following business day. Under this practice, those banks would temporarily balance their books by crediting an "other liability" account; on the next business day, the "other liability" account would be debited and the presenting bank would be paid. The action now taken defines this type of "other liability" as a deposit, subject to reserve requirements.

A number of considerations underlay the Board's action. Use of an "other liability" account for the purposes mentioned could deprive customers of the use of funds in a way that would be misleading and difficult to detect. Furthermore, the practice outlined above impeded the pursuit of an effective monetary policy by understating the reported money stock. Finally, the practice resulted in a level of required reserves lower than the Board had intended.

The amendment adopted was in the same form as that previously published for comment.

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DECEMBER 4, 1973

AMENDMENT TO REGULATION T, CREDIT BY BROKERS AND DEALERS

Effective June 21, 1974, the Board amended Regulation T to withdraw permission for brokers and dealers to sell certain kinds of investment contract securities on credit.

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

The amendment to Regulation T related to, but was not limited to, the arrangement for credit by securities brokers and dealers in the sale of certain investment contract securities, such as programs to own and feed cattle, or to own and rent, through a related rental arrangement, condominium units. Previously, the Board had held that, in most cases, securities brokers and dealers were not permitted, under Regulation T, to arrange credit for the sale of investment contract securities involving the sale of property together with a separate management contract. An exception had been permitted, however, when the property sale and the management contract were separate items and the credit involved was connected only with the property.

The purpose of this amendment was to negate that exception and to make the extension of credit on any part of such an investment contract an extension of credit on the entire contract in a manner consistent with that followed by the Securities and Exchange Commission. Thus, securities brokers and dealers could no longer arrange for such credit unless collateral were supplied that met the requirements of the regulation.

The amendment was adopted in substantially the same form as that published for comment in July. Chairman Burns abstained from this action inasmuch as he had not been present at earlier Board discussions of this matter.

DECEMBER 4, 1973

AMENDMENT TO REGULATION Q, INTEREST ON DEPOSITS

Effective January 1, 1974, the Board amended Regulation Q to prescribe rules governing the use of accounts subject to negotiable orders of withdrawal (NOW accounts) within Massachusetts and New Hampshire.

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

This amendment was designed to implement a new Federal law, which went into effect in mid-September, authorizing all depositary institutions—except credit unions—in Massachusetts and New Hampshire to offer interest-bearing accounts from which a depositor may make transfers of funds by negotiable orders of withdrawal. The rules set forth in the amendment were formulated following careful consideration of the history of the legislation and comments received on a tentative statement of proposed policies issued by the Board on September 14. Prior to adoption of these rules, the Board had consulted with the other concerned Federal regulatory agencies—the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board—which also issued regulations effective January 1, 1974, covering NOW accounts issued by institutions under their respective jurisdictions in Massachusetts and New Hampshire.

With regard to member commercial banks, the amendment provided that the maximum interest payable on NOW accounts was 5 per cent; ownership of NOW accounts was limited to natural persons (or fiduciary accounts for individuals) and nonprofit associations eligible to maintain savings accounts; and the number of NOW's that might be processed against an individual NOW account should not exceed 150 per year. In addition, the advertising provisions of Regulation Q were amended to restrict the advertisement, announcement, and solicitation of NOW's by member banks to media directed toward residents of Massachusetts and New Hampshire so as to confine use of NOW's to persons residing or employed in those two States and to current customers of member banks in those States.

DECEMBER 6, 1973

AMENDMENT TO REGULATION G, SECURITIES CREDIT BY PERSONS OTHER THAN BANKS, BROKERS, OR DEALERS

Effective immediately, the Board amended Regulation G to provide for the transfer of credits between persons registered pursuant to the regulation. This action was taken for the purpose of relieving undue hardship.

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

Regulations T, Credit by Brokers and Dealers, and U, Credit by Banks for the Purpose of Purchasing or Carrying Margin Stocks, provide for the transfer of loans among creditors within a given class, even though the transferred account is undermargined. Regulation G had no similar provision for transfer of loans. In the event that a creditor wished to transfer a loan on an undermargined account to another creditor, the borrower was required to bring his account up to the margin before the transfer could be made. This imposed a hardship on the borrower. For these reasons and since the borrower might not be able to exercise control over the creditor's decision to transfer a credit, the Board found that an undue hardship existed and acted to relieve that hardship.

DECEMBER 7, 1973

AMENDMENT TO REGULATION D, RESERVES OF MEMBER BANKS

Effective December 13, 1973, the Board amended the Supplement to Regulation D to lower the marginal reserve requirement on large-denomination CD's, bank-related commercial paper, and finance bills.

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

In May 1973 the Board had announced an 8 per cent marginal reserve requirement (the regular 5 per cent plus a supplemental 3 per cent) against time deposits in denominations of $100,000 or more and similar financial instruments, and in September 1973 it had increased the marginal reserve requirement from 8 to 11 per cent, subject to the provision that in no event should the reserves required of a member bank on its aggregate amount of time and savings deposits exceed 10 per cent.

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Under the amendment now adopted, the Board re-established an 8 per cent reserve requirement on those classes of liabilities that had been subject to the 11 per cent marginal reserve requirement. The action was taken in recognition of the moderation in growth of bank credit achieved over recent months. The amount of large-denomination CD's outstanding had dropped substantially; business loan expansion at banks had been at a much slower pace than earlier in the year; and extensions of other forms of bank credit had also slowed.

The action taken also affected certain nonmember State banks, as well as agencies and branches of foreign banks that had been voluntarily holding marginal reserves on large CD's at the request of the Board. The special marginal reserve held by these institutions was reduced from 6 to 3 per cent.

DECEMBER 13, 1973

REGULATION Y, BANK HOLDING COMPANIES

In an interpretation of Regulation Y, the Board concluded that the issuance and sale of short-term, small-denomination debt obligations (thrift notes) by a bank holding company, in the circumstances of a specific proposal, would not be permissible under Section 20 of the Banking Act of 1933 (the Glass-Steagall Act).

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

A request had been received from a bank holding company for the Board's views with respect to a proposed sale of "thrift notes" for the purpose of supplying capital to its wholly-owned nonbanking subsidiaries. The bank holding company planned to issue the thrift notes in denominations of $50 to $100, with no aggregate limitation on the amount to be issued. The notes would be sold to the public in a continuous offering, initially would have maturities of 12 months or less, and would bear interest at a variable rate according to money market conditions. There would be no guarantee or indemnity of the notes by any of the banks in the holding company system, and

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the notes would be sold only at offices of the holding company and its nonbanking subsidiaries. The thrift notes would bear the name of the holding company, which name was substantially similar to that of the holding company's affiliated banks.

The Board found that the issuance and sale of thrift notes, in the specific manner proposed, is within the scope of Section 20 of the Glass-Steagall Act—that is "the issue, flotation, underwriting, public sale or distribution . . . of . . . notes, or other securities, . . .".

Further, the Board found that because continued issuance and sale of such securities would be necessary to permit maintenance of the bank holding company's activities without substantial contraction, the bank holding company would be "principally engaged" in such securities activities.

In reaching this conclusion, the Board distinguished between the proposed activity and the issuance of commercial paper by a bank holding company, which the Board concluded was not an activity intended to be included within the scope of Section 20.

DECEMBER 20, 1973

AMENDMENT TO VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM GUIDELINES

Effective January 1, 1974, the Board amended the voluntary foreign credit restraint (VFCR) program guidelines to increase foreign lending and investment ceilings for banks and other financial institutions subject to the guidelines and to eliminate differences in the degrees of restraint on lending in developed countries.

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

Under the amendments adopted, (1) the ceiling for each commercial bank was increased to $10 million or to an amount 4 per cent above the ceiling in effect immediately prior to the present revision; (2) the request that banks refrain from making nonexport loans with maturities of more than 1 year (term loans) to residents of the developed countries of continental Western Europe was eliminated;

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(3) agencies and branches of foreign banks were allotted a ceiling of at least $10 million for making foreign loans and other investments of types restrained under the guidelines; (4) agencies and branches were permitted to recalculate their base "net foreign position," which determines the relationship between their foreign lending and foreign borrowing, by deducting from covered assets 96 per cent of their total foreign liabilities as of June 30, 1973; (5) the restraint against term loans to the developed countries of continental Western Europe was dropped for agencies and branches, as it was for banks; (6) the ceiling of each nonbank financial institution (including, among others, insurance companies, finance companies, and mutual funds) was increased to an amount 5 per cent above that in effect at the end of 1972, or to $2 million, whichever was higher; (7) the request that nonbank financial institutions refrain from increasing their loans and investments in the developed countries of continental Western Europe beyond the amount held at the end of 1968 was eliminated; and (8) periodic reports would continue to be filed by all banking institutions with $500,000 or more in foreign assets, and by all nonbank financial institutions with $500,000 or more in foreign assets of types subject to restraint or with $5 million or more of total foreign assets.

Liberalization of the VFCR guidelines, announced December 26, was coordinated with actions by the Treasury and Commerce Departments to relax capital controls through changes in the Interest Equalization Tax and the Foreign Direct Investment Program, respectively. The three programs constitute a set of restraints on capital outflow that are part of an over-all Government program to help the U.S. balance of payments.

DECEMBER 21, 1973

AMENDMENT TO REGULATION H, MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM

Effective December 21, 1973, the Board adopted an amendment to Regulation H that waived the requirement for the submission of reports of affiliates of State member banks, unless such reports were specifically requested by the Board.

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

The purpose of this amendment was to relieve the reporting burden on State member banks; the information supplied by the report of an affiliate is normally available in more detail from other reports by such banks.

1973—DISCOUNT RATES

During the first 8 months of 1973 the discount rate—the rate charged member banks for borrowing from their district Reserve Bank—was increased in a series of steps from 4½ to 7½ per cent. In this period there were even sharper advances in short-term market rates and in bank lending rates; such increases reflected the continued expansion in economic activity, growing pressures on prices and costs, and associated heavy demands for bank credit.[1] Monetary policy moved in a progressively restrictive direction, but tightening actions were initiated mainly through open market operations and other instruments of monetary policy rather than through the discount rate. Throughout the period, adjustments in that rate tended to lag behind advances in other interest rates.

In late summer and early fall short-term market rates declined somewhat from their peaks, but most of these rates tended to stabilize over the balance of the year at levels that were still well above the discount rate. Partly because of those declines, the Board in September disapproved actions by the directors of a number of Re-

[1] The general economic and financial conditions that the Board considered in arriving at its discount rate decisions during 1973 are reviewed in more detail 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.

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serve Banks to raise the discount rate further. Subsequently, several actions to reduce the discount rate voted by the directors of one Reserve Bank were disapproved by the Board in circumstances characterized by continued rapid advances in prices and costs.

APPROVAL OF INCREASES, JANUARY–AUGUST

On December 18, 1972, and again on January 2, 1973, the Board disapproved actions taken by a number of Federal Reserve Banks to raise the discount rate from 4½ per cent, the level that had been established in December 1971. Evidence of continuing strong expansion in economic activity, a sizable rise in short-term interest rates, and the resumption of rapid growth in the monetary aggregates had suggested to the Board that a higher discount rate might well be desirable in the near future. However, the Board decided not to approve the pending increases in view of the sensitive conditions then prevailing in financial markets and in light of the important financings undertaken by the Treasury around the year-end.

By mid-January it appeared to the Board that the market and Treasury financing constraints cited above were no longer compelling, and on January 12 it approved an increase in the discount rate from 4½ to 5 per cent. The major reason for the increase was to bring the rate into better alignment with short-term market rates, which had risen further in early January. The widened gap between the discount rate and rates on other sources of bank funds had encouraged a sharply higher level of member bank borrowings in the preceding weeks.

On February 23 the Board approved a further increase in the discount rate to 5½ per cent. In reaching its decision, the Board took account of the continuing rise in short-term interest rates fostered by strong credit demands associated with rapid economic expansion, of the renewed surge in member bank borrowings, and of the quickening pace of advance in a number of sensitive price indicators. In this situation the Board concluded that an increase in the discount rate would underscore the System's determination to further the objectives of economic stabilization and would also have a favorable impact on the dollar in foreign exchange markets.

In light of further advances in short-term market rates and in bank lending rates during the weeks that followed, the Board approved an

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increase of ¼ percentage point in the discount rate to 5¾ per cent on April 20. An increase of ½ percentage point was also considered by the Board. It was observed that the magnitude of the recent increases in market and bank rates, especially when viewed against the background of pronounced advances in prices and costs and vigorous expansion in bank credit, might well have called for a ½ percentage point adjustment in the discount rate. The Board concluded, however, that an increase of more than ¼ percentage point under prevailing circumstances might precipitate further expectational increases in interest rates not consistent with the current stance of monetary policy. A minority of the Board members, while voting to approve a ¼ percentage point increase, indicated that they would also have voted to move the rate up to 6 per cent in order to provide a stronger signal of the System's determination to use the various policy instruments at its disposal to resist inflationary pressures in the economy.

Subsequently, on May 10, the Board approved another ¼ percentage point increase in the discount rate to 6 per cent. As had been the case a few weeks earlier, the Board favored a modest move to bring the discount rate into better alignment with short-term market rates without precipitating further advances in those rates or in bank lending rates.

In the second half of May the Board disapproved actions by a number of Reserve Banks to raise the discount rate to 6¼ or 6½ per cent. It was the Board's judgment that more time was needed to assess the impact of the series of tightening actions taken by the Federal Reserve in preceding weeks involving open market operations and reserve requirements as well as discount rates. In addition, it was noted that conditions in the money market were highly sensitive and that short-term rates were still advancing. In these circumstances the Board felt that a further increase in the discount rate—following so soon after the recent ones—might lead to a misreading of the current posture and outlook for monetary policy and might cause undue expectational increases in interest rates.

Subsequently, on June 8, the Board approved an increase of ½ percentage point in the discount rate to 6½ per cent. The increase was small relative to the rise that had recently occurred in key money

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market rates. The action was taken amid indications of accelerating advances in prices and of severe pressure on the dollar in foreign exchange markets. The Board was especially concerned about the recent very high rates of growth in money and bank credit, and it concluded that the discount rate action would help to affirm the System's determination to pursue an anti-inflationary policy.

Indications of continuing excessive growth in money and bank credit led to Board approval on June 29 of a further increase in the discount rate to 7 per cent, and to concurrent action to increase reserve requirements on most categories of demand deposits by ½ percentage point. These actions were consonant with the decision of the Federal Open Market Committee at its meeting 10 days earlier to seek bank reserve and money market conditions consistent with somewhat slower growth in the monetary aggregates.

The timing of this discount rate increase was dictated in part by the rapid changes that were occurring in the money market. Just a few days earlier, conditions in the money market had been unsettled, and on June 25 and 26 the Board had disapproved pending increases at two Reserve Banks because of the risk that undue reactions might occur in the market. Moreover, at that time growth rates in reserves against private deposits and in the monetary aggregates still appeared, according to staff estimates, to be holding within acceptable ranges as determined by the Federal Open Market Committee at its meeting on June 19. However, data that became available after June 26 suggested that key aggregates were in fact growing at rates in excess of acceptable ranges. In this new situation the Board approved an increase in the discount rate to 7 per cent.

The final increase in the discount rate during 1973 was approved on August 13 when the level was raised from 7 to 7½ per cent. Short-term market rates had risen substantially further since late June, and by midsummer the spread between those rates and the discount rate was the widest on record. In part as a consequence, System lending to member banks had risen to unusually high levels. In this situation, an increase of ½ percentage point was viewed by the Board and by the Reserve Banks as a passive adjustment; but it was considered to be desirable in order to emphasize that the System was holding firm to its present posture of monetary restraint. On the

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other hand, the increase was not thought likely, nor was it intended, to be regarded as a move toward further restraint, and it was not expected to foster further advances in market or bank lending rates.

As had been true earlier in the year, market conditions and Treasury financing constraints played a role in the timing of the August increase. Previously, on July 27 and again on August 3, the Board had disapproved pending increases to 7½ per cent at a number of Reserve Banks because of unsettled conditions in the debt markets and because of the major Treasury financings that were conducted in late July and the first part of August. By the middle of the month the atmosphere in the debt markets had improved and the new issues offered by the Treasury had been successfully absorbed by investors.

DISAPPROVAL OF CHANGES, SEPTEMBER–DECEMBER

Over the remainder of the year the Board disapproved actions by several Reserve Banks to change the discount rate, including both increases and decreases.

During September the directors of five Banks voted to increase the rate from 7½ to 8 per cent. They felt it would be desirable to provide a strong signal of the System's determination to maintain a restrictive monetary policy to help bring inflation under control. Pending actions by four Banks were denied on September 14. In the circumstances then prevailing, the Board felt that the announcement of another tightening action might have a highly adverse impact on financial markets, including repercussions on the cost and availability of funds in the residential mortgage market. More generally, the Board decided that additional restraint was not warranted in light of the recent moderating tendencies in the economy and the apparently weaker performance of the monetary aggregates. Subsequently, on September 27, a majority of the Board voted to disapprove pending increases at two Reserve Banks because of the accumulating evidence of substantial slowing in the growth of the monetary aggregates and the large recent declines in short-term market rates.

Governor Brimmer, who dissented from this action, felt the increase would have been consistent with the maintenance of a restrictive posture of monetary policy and would have tended to have a moderating effect on inflationary expectations. In his view the recent sharp reductions in market interest rates had been stimulated

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by anticipations of a significantly easier monetary policy and he did not want to see such expectations sustained.

In the period from early October to late November the Board disapproved several actions by one Reserve Bank to reduce the discount rate from 7½ to 7¼ per cent. The directors of that Bank had communicated the view that a move toward a somewhat less restrictive monetary policy would be desirable in light of what they believed were increasing prospects of a growth recession, or perhaps an actual recession, in 1974. In reaching its decision the Board took note of emerging uncertainties associated with the energy situation, but it concluded that a reduction in the discount rate would be premature, especially in light of the strong pressures on prices and costs and the strengthening of the monetary aggregates as the autumn progressed.

The individual Board decisions in 1973 and the votes taken follow.

VOTES ON RESERVE BANK ACTIONS TO CHANGE THE DISCOUNT RATE

In accordance with the provisions of the Federal Reserve Act, the boards of directors of the Federal Reserve Banks are required to establish rates on discounts for and advances to member banks at least every 14 days and to submit such rates to the Board for review and determination. The Board votes listed below are those that involved approval or disapproval of actions to change the rate. Specific reference is made to the rate on discounts for and advances to member banks under Sections 13 and 13a of the Federal Reserve Act. Appropriately corresponding changes in rates on advances to member banks under Section 10(b) of the Act and on advances to individuals, partnerships, and corporations other than member banks under the last paragraph of Section 13 of the Act were also included in each action.

JANUARY 2, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Chicago on December 28, 1972, to raise the discount rate to 4¾ per cent (an increase from 4½ per cent).

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

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JANUARY 12, 1973

Effective January 15, 1973, the Board approved actions taken by the directors of all the Federal Reserve Banks to raise the discount rate to 5 per cent.

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

FEBRUARY 23, 1973

Effective February 26, 1973, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, St. Louis, and Kansas City to raise the discount rate to 5½ per cent.

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

The Board later approved similar actions taken by the directors of the Federal Reserve Banks of Cleveland, Richmond, Atlanta, Chicago, Minneapolis, and Dallas, effective February 27; the Federal Reserve Bank of Boston, effective February 28; and the Federal Reserve Bank of San Francisco, effective March 2.

APRIL 20, 1973

Effective April 23, 1973, the Board approved actions taken by the directors of the Federal Reserve Banks of Philadelphia, Cleveland, Richmond, Atlanta, Minneapolis, Kansas City, and San Francisco to increase the discount rate to 5¾ per cent.

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

The Board later approved similar actions taken by the directors of the Federal Reserve Banks of Chicago, St. Louis, and Dallas, effective April 27; the Federal Reserve Bank of Boston, effective May 1; and the Federal Reserve Bank of New York, effective May 4.

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MAY 10, 1973

Effective May 11, 1973, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco to raise the discount rate to 6 per cent.

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

The Board later approved a similar action taken by the directors of the Federal Reserve Bank of Kansas City, effective May 18.

MAY 17, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on May 17 to raise the discount rate to 6¼ per cent.

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

MAY 25, 1973

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Chicago and Minneapolis on May 24 and 25, respectively, to increase the discount rate to 6¼ per cent, and by the directors of the Federal Reserve Bank of St. Louis on May 24 to increase the discount rate to 6½ per cent.

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

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

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JUNE 8, 1973

Effective June 11, 1973, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Atlanta, Chicago, St. Louis, Minneapolis, Dallas, and San Francisco to raise the discount rate to 6½ per cent.

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

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Bank of Richmond, effective June 12, and the Federal Reserve Bank of Kansas City, effective June 15.

JUNE 25, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on June 22 to raise the discount rate to 7 per cent.

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

JUNE 26, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on June 25 to increase the discount rate to 7 per cent.

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

JUNE 29, 1973

Effective July 2, 1973, the Board approved actions taken by the directors of all the Federal Reserve Banks to raise the discount rate to 7 per cent.

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

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

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JULY 27, 1973

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Chicago, St. Louis, Minneapolis, and Dallas on July 26 to raise the discount rate to 7½ per cent.

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

AUGUST 3, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of San Francisco on August 2 to raise the discount rate to 7½ per cent.

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

AUGUST 13, 1973

Effective August 14, 1973, the Board approved actions taken by the directors of the Federal Reserve Banks of New York, Philadelphia, Cleveland, Richmond, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco to raise the discount rate to 7½ per cent.

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

The Board later approved similar actions taken by the directors of the Federal Reserve Bank of Atlanta, effective August 16, and the Federal Reserve Bank of Boston, effective August 23.

SEPTEMBER 14, 1973

The Board disapproved actions taken by the directors of the Federal Reserve Banks of New York and Chicago on September 6 and by the directors of the Federal Reserve Banks of Cleveland and St. Louis on September 13 to increase the discount rate to 8 per cent.

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

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SEPTEMBER 27, 1973

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Kansas City on September 20 and by the directors of the Federal Reserve Bank of Chicago on September 27 to raise the discount rate to 8 per cent.

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

OCTOBER 4, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on October 3 to reduce the discount rate to 7¼ per cent.

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

OCTOBER 17, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on October 15 to reduce the discount rate to 7¼ per cent.

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

NOVEMBER 1, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on October 29 to reduce the discount rate to 7¼ per cent.

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

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NOVEMBER 15, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on November 12 to reduce the discount rate to 7¼ per cent.

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

NOVEMBER 27, 1973

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on November 26 to reduce the discount rate to 7¼ per cent.

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

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Record of Policy Actions of the Federal Open Market Committee

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

In the pages that follow, there are entries with respect to the policy actions taken at the meetings of the Federal Open Market Committee held during the calendar year 1973, 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.

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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 1973. Changes in the instruments during the year, including changes in titles made in March, are reported in the records for the individual meetings.

CONTINUING AUTHORITY DIRECTIVE WITH RESPECT TO DOMESTIC OPEN MARKET OPERATIONS

(in effect January 1, 1973)

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 respect to a current economic policy directive shall not be increased or decreased by more than $2.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) To buy or sell prime bankers' acceptances of the kinds designated in the Regulation of the Federal Open Market Committee in the

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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 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.

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

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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, 1973)

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.

AUTHORIZATION FOR SYSTEM FOREIGN CURRENCY OPERATIONS

(in effect January 1, 1973)

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:

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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

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(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 the 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
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

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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 informa-

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tion 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 3G(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, 1973)

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

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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.

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MEETING HELD ON JANUARY 16, 1973

Current economic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services (real gross national product) had accelerated appreciably in the fourth quarter of 1972 from an annual rate of nearly 6.5 per cent in the third quarter. Staff projections for the first half of 1973 continued to suggest that growth in real output—while slowing from the high rate that seemed indicated for the fourth quarter of 1972—would remain rapid.

In December industrial production continued to expand at a fast pace, and growth from the third to the fourth quarter was substantial. Total nonfarm payroll employment rose little in December, following sizable gains over the preceding 4 months. The unemployment rate, at 5.2 per cent, was unchanged from November but was well below the level prevailing from June through October. According to the advance report, retail sales increased slightly in December after having declined somewhat in November; nevertheless, sales were considerably higher in the fourth quarter than in the third.

Average hourly earnings of production workers advanced sharply in December. From August to December the average rate of gain was considerably higher than it had been earlier in 1972. Wholesale prices of industrial commodities increased little in December, but those of grains, livestock, meats, and other farm and food products rose very sharply, in part because of adverse weather during the autumn months. In November, when retail prices of foods had increased substantially, over-all consumer prices had continued to rise at about the same average rate as earlier in the year.

The latest staff projections for the first half of 1973 were very similar to those of 4 weeks earlier although business fixed investment now was expected to expand at a somewhat faster pace, as suggested by the latest Department of Commerce survey of business spending plans. It was still anticipated that consumption expenditures would remain strong, in part because of large refunds of personal income taxes withheld in 1972; that State and local government purchases of goods and services would continue to grow rapidly; and that business inventory investment would in-

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crease further. The projections also suggested that outlays for residential construction would turn down.

On January 11 the President announced the third phase of the economic stabilization program—which had been inaugurated in August 1971—and requested legislation to authorize extension of the program for an additional year in order to reduce inflation, minimize unemployment, and improve the Nation's competitive position in world trade. With respect to inflation, the President established a goal of a further reduction in the over-all rate of increase in prices to 2.5 per cent or less by the end of 1973.

U.S. merchandise imports rose appreciably more than exports in November, and the trade deficit increased sharply after a gradual improvement that had begun at midyear. In the fourth quarter the over-all deficit in the U.S. balance of payments was still substantial, despite large foreign purchases of U.S. corporate stocks and some inflows of liquid funds such as usually occur near the end of the year. Exchange markets had been quiet in recent weeks, and rates for the dollar against most other major currencies had changed little on balance.

At U.S. commercial banks expansion in loans outstanding to businesses slowed in December from an exceptionally high rate in November, while real estate and consumer loans continued to grow rapidly. Bank holdings of U.S. Government securities again increased by substantial amounts in association with two Treasury financings during the month.

Growth in the narrowly defined money stock (M_1)[1] accelerated sharply in December, after having been moderate on average during the August–November period; over the second half of the year growth was at an annual rate of about 8.5 per cent.[2] Although a part of the growth in M_1 during December could be attributed to a large increase in demand deposits of State and local governments following initial distribution of funds under the Federal

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

[2]Growth rates cited are calculated on the basis of the daily-average level in the last month of the period relative to that in the last month of the preceding period. Moreover, they are based on revised series for the monetary aggregates, which were released to the public in early February.

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revenue-sharing program, expanding transactions demands for money associated with the high and rising level of economic activity may have been a major factor.

Inflows of consumer-type time and savings deposits to commercial banks also accelerated in December, and the broadly defined money stock (M_2)[3] grew much more rapidly than in the immediately preceding months; growth of M_2 over the second half of the year was at an annual rate of about 11 per cent. U.S. Government deposits declined in December, but the outstanding volume of large-denomination CD's increased, and the bank credit proxy[4] grew a little more rapidly than in November.

Inflows of savings funds to nonbank thrift institutions were maintained from November to December, after having moderated earlier in the fourth quarter, and they remained large by historical standards. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages were again virtually stable in December.

In capital markets the over-all volume of new public offerings of corporate and State and local government bonds was reduced substantially in December by the holidays. Although the volume was expected to rebound in January, it appeared likely to remain well below the monthly average for 1972. On December 27 the Treasury announced an auction of a long-term bond in which, for the first time, the lowest bid price accepted would be the price on all accepted tenders. In the auction, which was held on January 4, $625 million of a 20-year bond was sold at a price to yield 6.79 per cent. The Treasury was expected to announce on January 31 the terms on which it would refund securities maturing on February 15, including $4.8 billion held by the public.

System open market operations since the December 19 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions that would support slower growth in monetary aggregates over the months ahead than appeared to be indicated for the second half of 1972. Operations had been

[3] M_1 plus time and savings deposits at commercial banks other than large-denomination certificates of deposits (CD's).

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

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directed toward fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate within a range of 4 to 11 per cent in the December–January period, while avoiding marked changes in money market conditions and taking account of Treasury financing operations and possible credit market developments.

Early in the inter-meeting period data becoming available had suggested that the rate of growth in RPD's would be substantially above the specified range. Consequently, the System had acted to restrain expansion in reserves provided through open market operations—to the extent feasible in light of the even-keel constraint associated with the Treasury's auction of the long-term bond—and money market conditions had firmed over the period. The Federal funds rate had risen to about 5¾ per cent in the days before this meeting from around 5½ per cent at the time of the preceding meeting, and member bank borrowings had increased to an average of about $1,200 million in the 4 weeks ending January 10 from an average of about $600 million in the preceding 4 weeks. At the time of this meeting it still appeared that in the December–January period RPD's would grow at a rate well above the specified range.

Short- and long-term market interest rates in general had risen moderately further since the Committee's meeting on December 19. In short-term markets demands for Treasury bills and some other instruments were strengthened by State and local government investment of receipts from Federal revenue sharing. On the day before this meeting the market rate on 3-month Treasury bills was 5.27 per cent, compared with 5.17 per cent 4 weeks earlier. In recognition of the substantial rise in short-term market interest rates that had occurred over recent months and the sharply increased level of member bank borrowings, Federal Reserve discount rates were raised one-half of a percentage point to 5 per cent, effective January 15.

The Committee agreed that the economic situation continued to call for growth in the monetary aggregates over the months ahead at slower rates than those recorded in the second half of 1972. The members took note of a staff analysis of prospective reserve–deposit relationships, which suggested that more moderate rates of monetary growth might be achieved in the January–Feb-

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ruary period by fostering growth in RPD's in that period at an annual rate within a range of 9 to 11 per cent. In view of the very rapid monetary expansion in December, however, the members concluded that open market operations should be directed at achieving still greater restraint and 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 4.5 per cent. Specifically, they decided that operations should be directed at fostering RPD growth during the January–February period within a range of 4.5 to 10.5 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 financing 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 suggests that real output of goods and services expanded much more rapidly in the fourth quarter than in the third quarter, and the unemployment rate declined. Wage rates have increased more rapidly in recent months than earlier in the year. Consumer prices rose considerably again in November. Wholesale prices of farm and food products advanced sharply in December but those of industrial commodities increased little. On January 11 the President announced Phase III of the economic stabilization program, which has among its major objectives a further reduction in the rate of inflation. The over-all deficit in the U.S. balance of payments has remained substantial in recent months, and U.S. merchandise imports rose more than exports in November.
>
> Growth in the narrowly and broadly defined money stock was exceptionally rapid in December, after having been moderate on average during the preceding 4 months. In recent weeks interest rates on both short- and long-term securities have risen moderately.

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Effective January 15, Federal Reserve discount rates were raised one-half of a percentage point to 5 per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions consonant with the aims of the economic stabilization program, including further abatement of inflationary pressures, sustainable growth in real output and employment, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing 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 occurred in the second half of last year.

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.)

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MEETING HELD ON FEBRUARY 13, 1973

Current economic policy directive

Estimates of the Commerce Department indicated that real output of goods and services had grown at an annual rate of 8.5 per cent in the fourth quarter of 1972, and growth appeared to be continuing at a substantial, although less rapid, rate in the first quarter of 1973. Staff projections suggested that real growth in the second quarter would remain close to the first-quarter rate.

In January retail sales rose sharply, according to the advance report, after having increased considerably more in December than had been indicated by earlier data. Industrial production continued to expand—reflecting gains in consumer goods and business equipment—and nonfarm payroll employment rose further; however, the pace of expansion in output and employment in both December and January was less rapid than over the four preceding months. The unemployment rate declined slightly further to 5.0 per cent.

Labor costs per unit of output in the private nonfarm economy—which had changed little in the second and third quarters of 1972—turned up in the fourth quarter as the advance in output per manhour slowed and the rise in wage rates accelerated. Average hourly earnings of production workers continued to rise at a relatively rapid rate in January. In December the rise in over-all consumer prices slowed; while retail prices of nonfood commodities and of services advanced at a faster pace than earlier in the year, average retail prices of foods were about stable. In wholesale markets, however, prices of meats, eggs, and some other foods and foodstuffs rose sharply in December, and the rise continued in January.

The latest staff projection of real growth in the first half of 1973 was about unchanged from that of 4 weeks earlier, but now the expected rise in average prices was somewhat larger, in part because of the substantial increases that had already occurred in prices of foods and foodstuffs. It was still expected that expansion in consumption expenditures, business fixed investment, and State and local government purchases of goods and services would remain strong and that business inventory investment would increase further. It was also anticipated that outlays for residential construction would level off and then turn down.

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In foreign exchange markets the relative calm that had prevailed for a number of months was shattered in late January by a series of developments, including a decision by the Italian Government to create a dual market for the lira in response to capital outflows, a decision by the Swiss Government to float the franc in response to large capital inflows, and release of U.S. foreign trade statistics revealing that the deficit—which had worsened in November after having improved gradually from June through October—had remained large in December. Heavy speculative flows out of dollars into the German mark and some other currencies developed, culminating in very large purchases of dollars by many central banks in the process of maintaining their exchange rates within the internationally agreed limits. On February 12, after consultations with other major countries, the Secretary of the Treasury announced that the United States would devalue the dollar by 10 per cent.

At U.S. commercial banks, credit demands—which had eased in December—expanded substantially in January in all major industrial categories and in all regions of the country, and outstanding business loans rose at a record pace. Real estate and consumer loans continued to grow at rapid rates, while bank holdings of securities increased little. In association with the strong demand for loans and further advances in market interest rates, some banks announced increases in their prime rates from 6 to 6¼ per cent at the beginning of February, but in cooperation with the Government's stabilization program, the banks rescinded the increases pending evaluation of data on costs and earnings.

The narrowly defined money stock (M_1)[1] changed little in January after having increased sharply in December, and growth over the 2 months combined was at an annual rate of about 6.5 per cent—about the same as the rate over the whole 6-month period from July 1972 to January 1973.[2] Part of the recent fluctuation in the growth rate was attributable to a temporary increase in demand deposits of State and local governments in association with initial distributions of funds under the Federal revenue-sharing

[1] Private demand deposits plus currency in circulation.

[2] Growth rates are calculated on the basis of the daily-average level in the last month of the period relative to that in the last month preceding the period. Moreover, they are based on revised series for the monetary aggregates, which were released to the public in early February.

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program and subsequent shifts of some of these funds into earning assets, including time deposits. Inflows of time and savings deposits other than large-denomination CD's increased from December to January, moderating the deceleration in growth in the more broadly defined money stock (M_2).[3] Growth in M_2 over both the December–January and the July–January periods was at an annual rate of about 9.5 per cent.

Inflows of savings funds to nonbank thrift institutions also rose substantially from December to January. Contract interest rates on conventional mortgages apparently changed little in January and yields in the secondary market for Federally insured mortgages also remained stable.

On January 31 the Treasury announced that in its mid-February financing it would offer holders of maturing notes an opportunity to exchange their holdings for a 3½-year, 6½ per cent note priced to yield about 6.60 per cent and that it would auction about $1 billion of 6¾-year, 6⅝ per cent notes. As had been expected in the market, a relatively large part—$2.2 billion, or 47 per cent—of the $4.8 billion of maturing notes held by the public was redeemed for cash.

System open market operations since the January 16 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions that would support slower growth in monetary aggregates over the months ahead than the rates recorded over the second half of 1972. 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 4.5 to 10.5 per cent in the January–February period, while avoiding marked changes in money market conditions and taking account of Treasury financing operations.

The System had acted early in the inter-meeting period—prior to announcement of the terms of the Treasury financing—to restrain expansion in reserves provided through open market operations, and money market conditions had firmed. The Federal funds rate, which had been about 5¾ per cent in the days before the January meeting, rose to about 6⅜ per cent in the latter part of the month and then fluctuated around that level. Member bank borrowings

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

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averaged about $1,235 million in the 4 weeks ending February 7, compared with about $1,200 million in the preceding 4 weeks. At the time of this meeting it appeared that in the January–February period RPD's would grow at a rate near the middle of the specified range.

Market interest rates had continued to rise since the Committee's January meeting, reflecting the further tightening in money market conditions, widespread expectations of vigorous economic expansion, and uncertainty about the effectiveness of Phase III of the economic stabilization program. Short-term rates had risen considerably. In early February, however, the market for Treasury bills was strengthened by actual and expected purchases of bills by foreign central banks in association with the speculative outflows from dollars into other currencies. On February 9, the last market day before this meeting, the rate on 3-month bills was 5.44 per cent, down from 5.76 per cent on February 1 but up from 5.27 per cent on the day before the January meeting.

The rise in interest rates was more moderate for long-term than for most short-term securities. The volume of new public offerings of corporate bonds, which had been reduced in December by the holidays, failed to rebound in January and appeared likely to remain at a reduced level in February. The volume of new State and local government bonds also changed little in January, and it appeared likely to decline in February.

The Committee agreed that the economic situation called for growth in the monetary aggregates over the months ahead at somewhat slower rates than had occurred on average in the past 6 months. The members took note of a staff analysis suggesting that the sharp further advance in short-term interest rates that had occurred in recent months would probably retard growth in the demand for money over the months ahead. The analysis also suggested that in the February–March period the Committee's objectives for monetary growth might be fostered by pursuing growth in RPD's at an annual rate within a range of 0.5 to 2.5 per cent and that attainment of RPD growth in that range probably would be associated with some additional firming of money market conditions and some upward pressure on long-term interest rates.

The Committee concluded that active reserve-supplying operations should be avoided unless RPD's in the February–March period

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appeared to be declining at an annual rate of more than 2.5 per cent. Specifically, the members decided that operations should be directed at fostering RPD growth during that period within a range of −2.5 to +2.5 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 possible credit market developments and international 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 suggests continued substantial growth in real output of goods and services in the current quarter, although at a rate less rapid than in the fourth quarter of 1972. The unemployment rate has declined slightly further. In recent months wage rates have increased at a relatively rapid pace, and unit labor costs turned up in the fourth quarter of 1972. The rise in consumer prices slowed in December when retail prices of foods changed little, but prices of foods and foodstuffs at earlier stages of distribution rose sharply in both December and January. The excess of U.S. merchandise imports over exports remained large in December. Heavy speculative movements out of dollars into German marks and some other currencies developed in late January and early February. On February 12 the Government announced that the United States would devalue the dollar by 10 per cent.
>
> The narrowly defined money stock changed little in January after having increased sharply in December, and growth over the 2 months combined was at an average annual rate of about 6½ per cent. Growth in the more broadly defined money stock slowed less abruptly from December to January as inflows of consumer-type time and savings deposits to banks accelerated. A sharp and pervasive increase has taken place in bank loans to businesses. In recent weeks market interest rates generally have risen further, with increases substantial for short-term rates and relatively moderate for long-term rates. Most recently, however, Treasury bill rates have moved back down under the influence of foreign official buying.

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In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions consonant with the aims of the economic stabilization program, including further abatement of inflationary pressures, sustainable growth in real output and employment, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of possible domestic credit market and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support somewhat slower growth in monetary aggregates over the months ahead than occurred on average in the past 6 months.

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

Absent and not voting: Mr. Daane.

Developments subsequent to the meeting made it appear that RPD's would grow in the February–March period at an annual rate in excess of 2.5 per cent, even though money market conditions had firmed and the Federal funds rate had averaged close to 6¾ per cent for two successive weeks. On March 1, 1973, the members agreed that the weekly average Federal funds rate should be permitted to rise somewhat further if necessary to limit growth in RPD's.

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MEETING HELD ON MARCH 19-20, 1973[1]

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services, which had expanded at an annual rate of 8.0 per cent in the fourth quarter of 1972, was growing at a substantial but less rapid rate in the first quarter of 1973. Staff projections for the second quarter suggested that real growth would remain close to the first-quarter rate.

In February industrial production continued to expand, reflecting mainly substantial further gains in output of consumer goods and business equipment; increases in over-all output of materials, which had been sizable in late 1972, were small in the first 2 months of this year. Nonfarm payroll employment rose sharply in February. The civilian labor force also increased substantially—after having declined in January—and the unemployment rate, at 5.1 per cent, was about the same as in the preceding 3 months. Retail sales declined in February, according to the advance report, but the decline followed an exceptionally large advance from November to January.

Retail prices of foods rose sharply in January—the latest month for which such price data were available. In February wholesale prices of farm and food products increased substantially for the third successive month. Moreover, average wholesale prices of industrial commodities rose by an unusually large amount, reflecting sizable increases in shoes and other apparel, petroleum products, machinery, and a number of industrial materials. The advance in average hourly earnings of production workers on nonfarm payrolls, which had been large in the last 4 months of 1972, was moderate in the first 2 months of this year.

The latest staff projection of real growth in the second quarter of 1973 was little different from that of 4 weeks earlier. It was still expected that expansion in consumption expenditures, business fixed investment, and State and local government purchases of

[1]This meeting was held over a 2-day period beginning on the afternoon of Mar. 19, 1973, in order to provide more time for the staff presentation concerning the economic situation and outlook and the Committee's discussion thereof.

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goods and services would remain strong and that outlays for residential construction would turn down. However, the increase in business inventory investment projected for the second quarter was somewhat larger than before; in the first quarter inventory accumulation appeared to be falling short of earlier projections as the expansion in final sales seemed to be exceeding expectations.

Following the announcement on February 12 that the United States would devalue the dollar by 10 per cent, most continental European countries retained their currency par values in terms of SDR's or gold, Japan and Italy freed their currencies to float, and the United Kingdom, Switzerland, and Canada continued to allow their currencies to float. Exchange markets in major countries—which since February 9 had been closed in the sense that central banks had not intervened—reopened on February 14 and 15. After about a week of relative calm in the markets, during which a sizable volume of funds flowed back into dollars and the Japanese yen floated up by 16 to 17 per cent, a new speculative movement out of dollars and into German marks and some other currencies developed; on March 1 and 2 most major exchange markets closed again.

The new disturbance in foreign exchange markets led to a series of international conferences and to a number of measures aimed at maintaining orderly international monetary arrangements. On March 12 six of the nine members of the European Community announced their decision to participate in a joint float—after a 3 per cent upward revaluation of the German mark—while maintaining rates between their own currencies within bands of 2¼ per cent, and they were subsequently joined by two other European countries; the United Kingdom, Italy, and Ireland—the remaining three members of the Community—decided to continue to allow their currencies to float independently. After a meeting in Paris on March 16, the United States, other Group of Ten countries, other EC countries, and Switzerland announced that they had agreed that official intervention in exchange markets might be useful at times to facilitate the maintenance of orderly conditions and to facilitate the reflow of speculative funds into dollars. Intervention might be financed through the use of mutual credit facilities, if necessary; in order to assure adequate financial resources, enlargement of some of the existing "swap" facilities was envisaged.

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At U.S. commercial banks, expansion in business loans—already at a record rate in January—rose sharply further in February. A sizable share of the increase in outstanding loans was attributable to a shift in business borrowing from the commercial paper market in response to a rise in short-term interest rates in the market relative to bank lending rates. Loans to foreign commercial banks also expanded considerably, and consumer and real estate loans continued to grow at a fast pace. To accommodate the strong loan demand, banks sharply increased the outstanding volume of large-denomination CD's and reduced their holdings of Treasury securities.

The narrowly defined money stock (M_1),[2] which had grown rapidly in December and then changed little in January, expanded moderately in February; over the 3 months combined, growth was at an annual rate of about 6.5 per cent—little changed from the rate over the preceding 3 months.[3] Inflows of time and savings deposits other than large-denomination CD's slowed sharply in February as market interest rates advanced, and the more broadly defined money stock (M_2)[4] grew at an annual rate of about 6 per cent, compared with a rate of about 6.5 per cent in January; over the 6 months through February, growth was at a rate of about 8.5 per cent. In February, however, the bank credit proxy[5] expanded at a very fast pace, reflecting the large increase in the outstanding volume of large-denomination CD's.

System open market operations since the February 13 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions that would support somewhat slower growth in monetary aggregates over the months ahead than had occurred on the average in the past 6 months. 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

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[2]Private demand deposits plus currency in circulation.

[3]Growth rates are calculated on the basis of the daily-average level in the last month of the period relative to that in the last month preceding the period. Moreover, they are based on revised series for the monetary aggregates, which were released to the public in early February.

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

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

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−2.5 to +2.5 per cent in the February–March period, while avoiding marked changes in money market conditions.

Early in the inter-meeting period it had appeared that growth in the monetary aggregates would remain strong and that bank sales of CD's, in association with the larger-than-expected demands for bank credit, might result in growth in RPD's in the February–March period at an annual rate in excess of 2.5 per cent. Consequently, the System had acted promptly to slow the expansion in RPD's, and the Federal funds rate rose to about 6¾ per cent for the statement week ending February 21 from around 6⅜ per cent in the days before the February meeting. After March 1—when Committee members agreed that the weekly average rate for Federal funds should be permitted to rise somewhat further if necessary to limit growth in RPD's—the rate fluctuated around a level slightly above 7 per cent. Member bank borrowings averaged about $1,665 million in the 5 weeks ending March 14, compared with about $1,235 million in the preceding 4 weeks.

Since the Committee's February meeting short-term market interest rates in general had risen substantially further as money market conditions continued to firm and as the persistent expansion in demands for bank credit induced banks to issue large amounts of CD's and to liquidate holdings of short-term Treasury securities. Rates on CD's with maturities between 90 and 179 days reached the Regulation Q ceiling of 6¾ per cent, and rates on those with maturities between 30 and 89 days—which are not subject to ceilings—rose to 7¼ per cent. Banks generally raised their prime rates from 6 to 6¼ per cent in late February, and on March 19 a number of banks announced that they would raise rates further to 6¾ per cent.[6] On that day the market rate on 3-month Treasury bills was 6.22 per cent, compared with 5.44 per cent 5 weeks earlier. Federal Reserve discount rates were raised ½ percentage point, to 5½ per cent, at four Reserve Banks on February 26 and at the remaining eight Banks by March 2.

Yields on long-term securities also had continued to rise since the February meeting, but the increase remained relatively moderate, especially for Treasury and corporate issues. Upward pressures

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[6]By March 27, in cooperation with the Government's stabilization program, these banks had rolled back their rates to 6½ per cent.

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on long-term yields were limited by foreign official demands for Treasury coupon issues and by a sharp drop in the volume of new public offerings of corporate bonds in February and the prospect that the volume would only recover in March. For State and local government bonds, the volume of new issues declined more moderately in February and appeared likely to rise again in March; moreover, commercial bank demands for these securities receded as loan demands expanded.

Contract interest rates on conventional mortgages rose somewhat in February, after 4 months of stability, while yields in the secondary market continued to change little. Inflows of savings funds to nonbank thrift institutions, like those to banks, slowed considerably as yields on market securities became increasingly attractive to savers.

The Committee agreed that the economic situation called for growth in the monetary aggregates over the months ahead at somewhat slower rates than had occurred on the average in the past 6 months. The members took note of a staff analysis suggesting that the cumulative impact of the advance in short-term interest rates that had already occurred would probably slow growth in the monetary aggregates over the months ahead. Nevertheless a relatively rapid rate of growth in RPD's was projected for the March–April period, chiefly because the substantial increase in the outstanding volume of large-denomination CD's that had occurred in recent weeks would affect required reserves with a lag and further expansion in the outstanding volume was expected. Therefore, the Committee's objectives for monetary growth might be fostered by pursuing growth in RPD's in the March–April period at an annual rate within a range of 14 to 16 per cent. The analysis also suggested that attainment of RPD growth in that range might be associated with some further increase in some short-term interest rates and probably also in long-term rates.

The Committee concluded that active reserve-supplying operations should be limited unless RPD's in the March–April period appeared to be growing at an annual rate of less than 12 per cent. Specifically, the members decided that operations should be directed at fostering RPD growth during that period at a rate within a range of 12 to 16 per cent, while continuing to avoid marked changes in money market conditions. They also agreed that in the

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conduct of operations account should be taken of possible credit market developments and international 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.

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

> The information reviewed at this meeting suggests continued substantial growth in real output of goods and services in the current quarter, although at a rate less rapid than in the fourth quarter of 1972. Over the first 2 months of this year, employment rose strongly but the unemployment rate remained about 5 per cent. The advance in wage rates moderated from the earlier rapid pace, while the rate of increase in prices accelerated. Prices of foods continued to rise sharply both at wholesale and retail; in February, moreover, increases in wholesale prices of industrial commodities were large and widespread. Another wave of speculative movements out of dollars into German marks and some other currencies developed at the beginning of March and led to a decision by a number of European countries to float their currencies jointly. On March 16, after a series of meetings, officials of leading industrial countries announced a program aimed at maintaining orderly international monetary arrangements.
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> The narrowly defined money stock expanded moderately in February, after having changed little in January, and growth over recent months remained at an average annual rate of about 6.5 per cent. The more broadly defined money stock continued to grow at a moderate rate in February as inflows of consumer-type time and savings deposits to banks slowed sharply. However, in the face of strong loan demand from businesses, and also from foreign banks, U.S. banks sharply increased their issuance of large-denomination CD's and the bank credit proxy expanded very rapidly. In recent weeks short-term market interest rates have risen substantially further while the rise in long-term rates has remained more moderate.
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> In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions consonant with the aims of the economic stabilization program, including abatement of inflationary pressures, sustainable growth in real

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output and employment, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of possible domestic credit market and international developments, the Committee seeks to achieve bank reserve and money market conditions that will support somewhat slower growth in monetary aggregates over the months ahead than occurred on average in the past 6 months.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Mayo, Mitchell, Morris, Robertson, and Sheehan. Votes against this action: None.

On April 11, 1973, less than one week before the date scheduled for the Committee's next meeting, the System Account Manager reported that in light of the latest estimates for RPD's and the monetary aggregates, he interpreted the Committee's instructions to call for reserve-supplying operations consistent with an easing in money market conditions. On that day a majority of the members concurred in a recommendation by the Chairman that such operations not be undertaken prior to the next meeting, when the Committee would have an opportunity to deliberate on the appropriate policy course.

2. Ratification of earlier action

On March 15, 1973, 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, effective immediately, for the period ending with the close of business on March 20, 1973.

Votes for this action: Messrs. Hayes, Balles, Brimmer, Bucher, Francis, Mayo, Mitchell, Morris, and Robertson. Votes against this action: None.

Absent and not voting: Messrs. Burns, Daane, and Sheehan.

This action, which was ratified by unanimous vote at this meeting, had been taken on recommendation of the System Account

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Manager. The Manager had advised that a substantial volume of open market purchases of Treasury and Federal agency securities had been required in the period since the Committee's previous meeting in order to offset the reserve absorption caused by a sizable unanticipated rise in Treasury balances at Federal Reserve Banks, an increase in currency in circulation, and changes in certain other market factors, and that a temporary increase in the leeway for System purchases appeared desirable in light of the prospective near-term needs to supply reserves.

3. Review of and amendments to 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, 1973, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives.

The Committee concurred in a staff recommendation that, in the interest of simplicity and logic, the titles of three of these instruments should be changed and that corresponding amendments should be made in the text passages of certain instruments that referred to other instruments by title. The changes in titles were as follows: from "continuing authority directive with respect to domestic open market operations" to "authorization for domestic open market operations"; from "current economic policy directive" to "domestic policy directive"; and from "authorization for System foreign currency operations" to "authorization for foreign currency operations." The text passages amended to reflect these title changes were paragraph 1 of the authorization for domestic open market operations and paragraphs 2C and 2D of the foreign currency directive.

The Committee also amended its authorization for foreign currency operations in two respects to remove certain duplications that resulted from revisions made earlier in the year in its Rules of Organization and Rules of Procedure.[7] The amendments involved

[7]Revised Rules of Organization, Rules of Procedure, and Regulation relating to Open Market Operations of Federal Reserve Banks, as well as miscellaneous amendments to the Rules Regarding Availability of Information, as approved by the Committee on Jan. 16, 1973, effective Feb. 1, 1973, were published in the Federal Register for Jan. 30, 1973.

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deletion of paragraph 10 and a revision of paragraph 6 to read as follows:

> The Subcommittee named in Section 272.4(c) of the Committee's Rules of Procedure 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.

Except for the changes resulting from these actions, the Committee reaffirmed its domestic and foreign currency authorizations and its foreign currency directive in the form in which each was outstanding at the beginning of the year 1973.

> Votes for these actions: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Mayo, Mitchell, Morris, Robertson, and Sheehan. Votes against these actions: None.

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MEETING HELD ON APRIL 17, 1973

1. Domestic policy directive

The information reviewed at this meeting suggested that in the first quarter of 1973 expansion in consumption expenditures had been substantially larger than estimated 4 weeks earlier and that real output of goods and services had continued to grow rapidly. Moreover, the rise in prices had accelerated sharply. Staff projections for the current quarter suggested that growth in real output, while slowing from the high rate in the preceding two quarters, would continue relatively high.

Retail sales expanded substantially in March, according to the advance report, and sales for February were now reported to have risen appreciably rather than to have declined; for the first quarter as a whole, the gain was exceptionally large. Industrial production continued to expand in March, reflecting substantial increases in output of consumer goods, business equipment, and materials. Nonfarm payroll employment rose considerably further, and for the first quarter as a whole the advance was rapid. However, the civilian labor force also increased substantially in the quarter, and the unemployment rate remained at around 5.0 per cent.

The advance in average hourly earnings of production workers on nonfarm payrolls moderated in the first quarter of the year from the rapid rate in the final months of 1972. However, total payroll costs per manhour rose sharply, reflecting the increase in social security taxes at the beginning of the year. In March, as in February, wholesale price increases were reported for many industrial materials and finished goods—including metals, lumber, petroleum products, motor vehicles, machinery, and clothing. The rise in prices of farm products and foods remained rapid, in large part because of continuing increases in prices of livestock, poultry, and meats.

The latest staff projection of growth in real output in the second quarter of 1973 was about the same as that of 4 weeks earlier. Now, however, the projected increase in business inventory investment was larger—following a reduction in the estimated rate at which businesses had added to inventories in the first quarter—while the expansion in final purchases was smaller. Expectations were that Federal purchases of goods and services would change

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little, after apparently increasing somewhat more in the first quarter than projected, and that consumption expenditures would rise less sharply, following the exceptional advance in the first quarter. It was still anticipated that expansion in business fixed investment and in State and local government purchases of goods and services would remain strong and that outlays for residential construction would turn down.

According to staff projections, growth in real GNP would moderate in the second half of the year. It was expected that residential construction outlays would decline further from the second-quarter rate; that both fixed investment and inventory investment by businesses would expand less rapidly; and that the rise in disposable income and consumption expenditures would slow substantially.

Foreign exchange markets in Europe and Japan—which had officially closed on March 1 and 2—reopened on March 19, but trading volume remained considerably below normal. There was a moderate flow of funds into dollars—following the enormous outflows that had occurred in February and early March—and the dollar strengthened against most major foreign currencies. In recent weeks the over-all U.S. balance of payments had been in surplus.

Merchandise exports in the first 2 months of 1973 were up sharply from the rate in the fourth quarter of 1972, reflecting substantial gains among agricultural commodities, industrial materials, and machinery. The rise in imports was not quite so large, and the trade deficit for the 2 months was below the rate of the fourth quarter.

At U.S. commercial banks, expansion in business loans moderated somewhat in March, but it remained very strong by historical standards. Growth in real estate and consumer loans remained rapid, and bank holdings of U.S. Government securities—which had declined sharply in February—increased by a moderate amount. To accommodate the strong demand for loans, banks continued to expand rapidly their outstanding volume of large-denomination CD's. Since interest rates on CD's with maturities of more than 90 days had reached Regulation Q ceilings, the great bulk of CD's issued in March had maturities between 30 and 89 days.

The narrowly defined money stock (M_1)[1] changed little in March,

[1] Private demand deposits plus currency in circulation.

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and although inflows of time and savings deposits other than large-denomination CD's increased from a sharply reduced rate in February, growth in the more broadly defined money stock (M_2)[2] moderated slightly further. Over the first quarter of 1973 as a whole, growth in M_1 and M_2—at annual rates of about 2 and 6 per cent, respectively—was markedly below the high rates that had prevailed toward the end of 1972.[3] However, the bank credit proxy[4] grew rapidly both in March and over the first quarter as a whole, reflecting the sharp expansion in the outstanding volume of large-denomination CD's.

Short-term interest rates continued to rise until early April, but then rates declined—especially those for Treasury bills—in part because of market expectations that a stronger wage-price control program was about to be introduced and that money market conditions would not soon tighten further. On the day before this meeting, the market rate on 3-month Treasury bills was 6.19 per cent, down from 6.55 per cent on April 3 but about the same as on the day before the March meeting. Over the inter-meeting period, on balance, rates declined for Treasury bills and for Federal agency issues with maturities of 6 months to a year, and rates advanced for large-denomination CD's not subject to Regulation Q ceilings.

Since the last meeting of the Committee, yields on intermediate- and long-term securities had declined on balance—changing little while short-term rates were rising and then declining along with short-term rates. As in the period between the February and March meetings, markets for these securities had been strengthened by foreign official buying of Treasury coupon issues and by light corporate demands for funds in the capital market. The volume of new offerings of corporate bonds, which had been unusually small in February, was moderate in March and appeared likely to change little in April. For State and local government bonds,

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

[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.

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the volume of new issues was large in March but seemed likely to decline moderately in April.

The Treasury was expected to announce on April 25 the terms of its mid-May refunding. Of the maturing issues, $4.3 billion were held by the public.

Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages both rose somewhat in March. Inflows of savings funds to nonbank thrift institutions remained at around the slower pace to which they had fallen in February.

System open market operations since the meeting on March 19–20 had been guided by the Committee's decision to seek bank reserve and money market conditions that would support somewhat slower growth in monetary aggregates over the months ahead than had occurred on the average in the preceding 6 months. 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 12 to 16 per cent in the March–April period, while avoiding marked changes in money market conditions.

Toward the end of March, incoming data began to suggest that RPD's might grow at a rate below the specified range because of weaker-than-expected expansion in private demand deposits, and System operations were directed toward somewhat less tautness in bank reserve and money market conditions. In early April, available data continued to suggest that growth in RPD's in the March–April period would be below the specified range, but on April 11 a majority of the Committee members agreed that bank reserve and money market conditions should not be eased further in the few days before the next meeting. In those remaining days, the Federal funds rate was about 7 per cent, down slightly from the level prevailing in the days before the March meeting. In the 4 weeks ending April 11, member bank borrowings averaged about $1,850 million, compared with an average of $1,665 million in the preceding 5 weeks.

The Committee agreed that the economic situation and prospects called for moderate growth in the monetary aggregates over the months ahead, continuing the policy course agreed upon at the preceding meeting. The members took note of a staff analysis suggesting that the demand for money was likely to be stronger

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over the near term than it had been in the first quarter of the year, reflecting the unusually large Federal tax refunds—which would add to demand deposits temporarily—and continued strong expansion in economic activity. Although it was likely that expansion in the outstanding volume of large-denomination CD's would slow from the rapid pace in February and March, the increase was still expected to be large. Therefore, a relatively rapid rate of growth in RPD's in the April–May period was projected to be consistent with moderate growth in the monetary aggregates over the months ahead. The analysis also suggested that such a rate of growth in RPD's might be associated with little change in money market conditions and short-term interest rates in general.

The Committee decided that operations should be directed at fostering RPD growth during the April–May period at an annual rate within a range of 10 to 12 per cent, while continuing to avoid marked changes in money market conditions. The members also agreed that, in the conduct of operations, account should be taken of the forthcoming Treasury financing and of deviations in monetary growth 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.

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

> The information reviewed at this meeting suggests continued rapid growth in real output of goods and services in the first quarter, spurred by an extraordinary increase in consumption expenditures. Over the first 3 months of this year, employment rose strongly but the unemployment rate remained about 5 per cent. The recent advance in wage rates has been more moderate than in the latter part of 1972, but the increase in social security taxes in January added significantly to payroll costs. The rate of increase in prices stepped up very sharply in the first quarter. Prices of foods have continued to rise at wholesale and retail, and in both February and March increases in wholesale prices of industrial commodities were large and widespread. Foreign exchange markets have been relatively quiet since mid-March, and there has been a moderate reflow into dollars. The U.S. merchandise trade balance improved a little in January–February, when both exports and imports were sharply higher than in the fourth quarter of 1972.

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Growth in both the narrowly and more broadly defined money stock slowed markedly in the first quarter following a bulge toward the close of last year. However, in the face of strong loan demand—especially from businesses—banks sharply increased their issuance of large-denomination CD's, and the bank credit proxy expanded very rapidly. Short-term market interest rates continued to rise until the beginning of April, but since then some rates—particularly those on Treasury bills—have declined. Rates on long-term market securities have moved down on balance 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 abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

> Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Mitchell, Morris, Robertson, Sheehan, and Winn. Votes against this action: None.
>
> Absent and not voting: Mr. Mayo. (Mr. Winn voted as his alternate.)

2. Revision of guidelines for operations in Federal agency issues

At this meeting the Committee revised the third and fourth 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, and guidelines 5 and 6 had been revised on February 15 and April 17, 1972, respectively. Prior to today's action, guidelines 3 and 4 had contained references to "initial" activities. Thus, number 3 read "As an initial objective, the System would aim at building up a modest portfolio of agency issues, with the amount and timing dependent on the ability to make net acquisitions without undue market effect," and number 4 read "System holdings of maturing agency issues will be allowed to run off at maturity, at least initially." The revision of guideline

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3 consisted of eliminating the outdated reference to building up a portfolio, and the revision in guideline 4 consisted of deletion of the phrase "at least initially."

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

Absent and not voting: Mr. Mayo. (Mr. Winn voted as his alternate.)

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MEETING HELD ON MAY 15, 1973

Domestic policy directive

Estimates of the Commerce Department indicated that real output of goods and services had grown at an annual rate of 8 per cent in the first quarter, the same rate as in the fourth quarter of 1972. Growth appeared to be moderating somewhat in the current quarter, and staff projections continued to suggest that it would moderate further in the second half of 1973.

In April industrial production continued to expand at a high rate, reflecting further substantial gains in output of consumer goods, business equipment, and materials. Employment in manufacturing establishments also rose appreciably, and the average factory workweek advanced to the highest level since late 1966. However, total nonfarm payroll employment rose less rapidly than in the first 3 months of the year, and the unemployment rate remained at 5 per cent. Retail sales declined in April, according to the advance report, after having increased sharply in the first quarter.

The advance in average hourly earnings of production workers on nonfarm payrolls stepped up in March and April, following only modest increases in the first 2 months of the year. The consumer price index continued to rise rapidly in March, as retail prices of foods soared for the third successive month and prices of other consumer goods and services continued to move up at substantial rates. In April wholesale prices of consumer foods rose considerably further. As in February and March, moreover, increases among wholesale prices of industrial commodities were large and widespread.

The latest staff projection of growth in real output in the second quarter of 1973 was essentially unchanged from that of 4 weeks earlier, although the projected increase in inventory investment was somewhat larger. It was still expected that the rise in consumption expenditures would be substantial, but not so large as the extraordinary increase in the first quarter; that expansion in business fixed investment and in State and local government purchases of goods and services would remain strong; and that outlays for residential construction would turn down.

For the final two quarters of the year, expectations were that residential construction outlays would decline further; that fixed

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investment and inventory investment of businesses would expand less rapidly; and that the rise in disposable income and consumption expenditures would slow considerably.

U.S. merchandise exports rose substantially in March, led by a large further increase in agricultural commodities. Imports remained at the January–February level, and the trade deficit dropped sharply. For the first quarter as a whole, the trade deficit was well below that in the fourth quarter of 1972.

Exchange markets had been quiet in late April and early May, and the dollar had firmed against most other major currencies—especially just after the announcement, on April 26, of the U.S. foreign trade statistics for March. On the day before this meeting, however, new speculative pressures developed and the dollar declined markedly against major European currencies.

At U.S. commercial banks, expansion in business loans, although still substantial, moderated further in April in association with a reduction in business substitution of bank credit for commercial paper financing. Growth in real estate and consumer loans remained rapid, while bank holdings of securities declined somewhat.

Growth in the narrowly defined money stock (M_1),[1] which had been at an annual rate of less than 2 per cent in the first quarter,[2] picked up in April. Reflecting the faster rate of expansion in M_1, growth in the more broadly defined money stock (M_2)[3] also increased; inflows of time and savings deposits other than large-denomination CD's were about the same as in March. The increase in the outstanding volume of large-denomination CD's, although still large, was below the record March expansion, and U.S. Government deposits declined. Consequently, the bank credit proxy[4] grew much less rapidly than in March.

Inflows of savings to nonbank thrift institutions slowed consid-

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[1] Private demand deposits plus currency in circulation.

[2] 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.

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

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

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erably in April, in part because of earlier increases in market interest rates. Mortgage interest rates continued to edge up.

The Treasury announced on April 25 that in its mid-May financing it would auction a 7-year, 6⅞ per cent note and a 25-year, 7 per cent bond to refund up to $2.65 billion of the $4.30 billion of publicly held notes maturing on May 15; the balance of the maturing notes held by the public would be redeemed for cash. In the auctions, held on May 1 and 2, $2 billion of the note was sold at an average price to yield 7.01 per cent, and $650 million of the bond was sold at the lowest bid price (paid by all successful bidders) to yield about 7.11 per cent. In addition to the cash redemption of part of the notes maturing in mid-May, the Treasury announced that, in view of its strong cash position, it would reduce the size of the weekly auction of 6-month bills by $100 million and that it foresaw no need to borrow new money until August.

System open market operations since the meeting on April 17 had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead. Soon after the April meeting, it appeared that the monetary aggregates would grow in the April–May period at rates in excess of an acceptable range even though estimates suggested that reserves available to support private nonbank deposits (RPD's) would grow in that period at an annual rate below the range of 10 to 12 per cent specified by the Committee. The divergent tendencies were attributed to two main factors: Banks' excess reserves were lower than anticipated and currency in circulation was growing more rapidly than expected.

In view of the strength in the monetary aggregates, System operations had been directed toward limiting growth in reserves, while continuing to avoid marked changes in money market conditions and while taking account of the Treasury financing. At the time of this meeting, it still appeared that growth in RPD's would fall somewhat short of the specified range. The Federal funds rate was about 7¾ per cent in the days before the meeting, compared with about 7 per cent shortly before the preceding meeting. In the 4 weeks ending May 9, member bank borrowings averaged about $1,715 million, compared with an average of about $1,850 million in the preceding 4 weeks.

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Short-term market interest rates, which had risen sharply earlier in the year, advanced little further on balance in the inter-meeting period, despite the substantial increase in the Federal funds rate. Markets, especially for Treasury bills, were strengthened by a shortage in the market supply of bills and by current and prospective Treasury financing operations. On the day before this meeting, the market rate on 3-month Treasury bills was 6.17 per cent, compared with 6.19 per cent on the day before the April meeting. Federal Reserve discount rates were raised ¼ percentage point, to 5¾ per cent, at all Reserve Banks on April 23 and ¼ point further, to 6 per cent, at 11 of the Reserve Banks on May 11.

Interest rates on long-term securities had changed little since the April meeting of the Committee, as demands for funds in the capital markets had remained moderate. The over-all volume of new public offerings of corporate and State and local government bonds had declined substantially in April, and although a partial recovery was in prospect, it appeared likely that the volume in May would be close to the reduced monthly rate in the first quarter.

The Committee agreed that the economic situation and prospects called for somewhat slower growth in the monetary aggregates over the months immediately ahead than had occurred on average in the past 6 months. A staff analysis suggested that the unusually large refunds of Federal personal income taxes had added temporarily to both demand deposits and consumer-type time and savings deposits and that as such refunds diminished growth in the demand for money would tend to moderate in the period immediately ahead. The analysis also suggested that the lagged effects of recent increases in interest rates would work in the direction of moderating the demand for money. Faced with sustained strong demands for credit, banks were likely to continue to increase substantially the outstanding volume of large-denomination CD's. Therefore, according to the analysis, relatively rapid growth in RPD's in the May–June period was likely to be consistent with somewhat slower growth in the monetary aggregates than had occurred on average over the past 6 months. The staff analysis also indicated that such a slowing in monetary growth would probably be associated with further increases in short-term interest rates and also with some rise in longer-term rates.

The Committee decided that operations should be directed at

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fostering RPD growth during the May–June period at an annual rate within a range of 9 to 11 per cent, while continuing to avoid marked changes in money market conditions. The members also agreed that allowance should be made in operations if growth in the monetary aggregates appeared to be deviating from an acceptable range and that in the conduct of operations account should be taken of international and domestic financial market developments. 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 chances seemed greater than usual that such consultation would be needed.

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

> The information reviewed at this meeting suggests that growth in real output of goods and services is likely to moderate somewhat in the current quarter from an exceptionally rapid pace in the two preceding quarters. Over the first 4 months of this year, employment rose considerably but the unemployment rate remained about 5 per cent. Retail prices of foods continued upward at an extraordinary pace in March, and in April average wholesale prices of consumer foods rose further. Increases in wholesale prices of industrial commodities were large and widespread in April, as in the two preceding months. In foreign exchange markets, which had been relatively quiet since mid-March, speculative pressures have developed in recent days and exchange rates for major European currencies have appreciated against the dollar. The U.S. merchandise trade balance improved considerably in the first quarter, reflecting in part an especially large increase in agricultural exports.
>
> In April growth in the narrowly defined money stock picked up from its low first-quarter rate, and growth in the broadly defined money stock also increased. Growth in business loans at banks slowed, and banks reduced the pace at which they issued large-denomination CD's; consequently, the bank credit proxy expanded somewhat less than in other recent months. In recent weeks Federal Reserve Bank discount rates have been increased in two steps of one-quarter point to 6 per cent by May 11. Most short-term market interest rates, which had risen sharply earlier, have advanced slightly

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further. Interest rates on long-term market securities have been relatively stable.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, the Committee seeks to achieve bank reserve and money market conditions consistent with somewhat slower growth in monetary aggregates over the months immediately ahead than occurred on average in the past 6 months.

> Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Mayo, Morris, and Sheehan. Votes against this action: None.
>
> Absent and not voting: Mr. Mitchell.

Subsequent to the meeting it appeared that in the May–June period the annual rate of growth in RPD's would be above 11 per cent and that growth in the monetary aggregates would exceed an acceptable range, even though money market conditions continued to tighten. On May 24, 1973, and again on June 8, a majority of the members concurred in a recommendation by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit growth in RPD's.

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MEETING HELD ON JUNE 18-19, 1973[1]

1. Domestic policy directive

The information reviewed at this meeting suggested that real output of goods and services, which had expanded at an annual rate of 8 per cent in both the last quarter of 1972 and the first quarter of 1973, was growing at a less rapid pace in the current quarter. Staff projections continued to suggest that growth would moderate further in the second half of the year.

In May industrial production continued to rise—reflecting for the most part further gains in output of consumer goods and business equipment—but the pace of expansion was less rapid than it had been earlier in the year. The value of new construction put in place in both April and May changed little from the monthly average for the first quarter. Growth in nonfarm payroll employment slowed from the high rate in the first quarter of the year, but the unemployment rate remained at 5 per cent. Retail sales rose in May, according to the advance report, after having declined more sharply in April than had been reported earlier; the average for the 2 months was close to the average for the first quarter.

The advance in average hourly earnings of production workers on nonfarm payrolls, which had been moderate in the first 4 months of 1973, remained so in May. However, this year's upward spiral in the wholesale price index continued, reflecting another substantial rise in prices of industrial commodities as well as a large increase in prices of farm and food products. In April the uptrend in the consumer price index was sustained at about the fast pace of the preceding 3 months. On June 13 the President announced that prices of all goods and services—except for rents and for prices of raw agricultural commodities sold at the farm level—would be frozen for a period not to exceed 60 days while a new and more effective system of controls was being devised to replace the economic stabilization program's third phase, which had been introduced in mid-January. Wages, profit margins, dividends, and

[1]This meeting was held over a 2-day period beginning on the afternoon of June 18, 1973, in order to provide more time for the staff presentation concerning the economic situation and outlook and the Committee's discussion thereof.

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interest rates remained subject to the controls that had existed under Phase III.

The latest staff projections for the second half of 1973 were very similar to those of 4 weeks earlier, although business fixed investment now was expected to expand at a somewhat less rapid pace, as suggested by the latest Department of Commerce survey of business spending plans. It was still anticipated that residential construction outlays would decline appreciably, that business inventory investment would increase less rapidly, and that the rise in disposable income and consumption expenditures would slow considerably.

In foreign exchange markets, the dollar came under strong selling pressure in early May, chiefly against those continental European currencies that were jointly floating against the dollar. Speculative demands were reflected in appreciation of those currencies floating against the dollar rather than in additions to foreign official holdings of dollars. By the date of this meeting, several of the European currencies had appreciated by as much as 7 to 10 per cent since early May.

The U.S. merchandise trade balance, which had improved substantially in March, was in surplus in April for the first time in about a year and a half. Exports of nonagricultural goods rose further while those of agricultural goods were near the high level reached in March. The value of imports declined, even though import prices rose sharply as a result largely of the devaluation of the dollar in February.

At U.S. commercial banks, total loans expanded sharply further in May, reflecting large increases in business loans and in loans to nonbank financial institutions. Banks' holdings of securities rose somewhat, although their holdings of U.S. Government securities declined appreciably. Faced with strong demands for loans and with rising market interest rates, banks raised the prime rate applicable to large corporations in three steps of ¼ of a percentage point each, from 6¾ per cent at the end of April to 7½ per cent in early June.

Growth in the narrowly defined money stock (M_1),[2] which had been very slow in the first quarter of the year and had picked up in April, was rapid in May and early June. The more broadly

[2] Private demand deposits plus currency in circulation.

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defined money stock (M_2)[3] also grew in May at a faster pace than it had earlier, reflecting solely the accelerated expansion in M_1; inflows of time and savings deposits other than large-denomination CD's were about the same as in April. However, growth in the bank credit proxy[4] continued to moderate as the outstanding volume of large-denomination CD's grew less rapidly than it had earlier in the year. It appeared that over the first half of 1973, M_1, M_2, and the credit proxy would grow at annual rates of about 5.5, 7.5, and 13.0 per cent, respectively.[5]

Inflows of savings to nonbank thrift institutions—which had slowed considerably in April, in part because of earlier increases in market interest rates—picked up somewhat in May. Mortgage interest rates continued to edge up.

System open market operations since the meeting on May 15 had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with somewhat slower growth in the monetary aggregates over the months immediately ahead than had occurred on average in the preceding 6 months. 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 9 to 11 per cent in the May–June period, while avoiding marked changes in money market conditions.

Soon after the May meeting, it had appeared that in the May–June period the monetary aggregates would grow at rates in excess of acceptable ranges and that RPD's would grow at an annual rate above the range that the Committee had specified. Consequently, the System had acted promptly to resist the expansion in RPD's, and the Federal funds rate rose from around 7¾ per cent in the days before the May meeting to an average slightly above 8 per cent in the statement week ending May 23. On May 24 and again on June 8, a majority of the Committee members concurred in recommendations by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit

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

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

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

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growth in RPD's, and the Federal funds rate rose to around 8½ per cent in the days before this meeting. In the 5 weeks ending June 13, member bank borrowings averaged about $1,855 million, up from about $1,715 million in the preceding 4 weeks.

In the inter-meeting period, short-term market interest rates advanced considerably further as money market conditions continued to firm and private credit demands remained strong. On May 16, moreover, imposition of marginal reserve requirements on large-denomination CD's was announced and the remaining Regulation Q ceilings on such CD's were suspended. The yield on 3-month Treasury bills—which had been relatively low, for the most part because of a shortage of bills in the market—rose more than other short-term rates as the market supply increased, mainly because of System sales of bills for its own account and that of foreign central banks; the market rate on such bills advanced from 6.17 per cent on the day before the May meeting to 7.20 per cent on the day before this meeting. Federal Reserve discount rates were raised ½ percentage point, to 6½ per cent, at 10 Reserve Banks on June 11 and at the remaining two Banks by June 15.

In long-term markets, increases in interest rates were moderate, despite the further tightening of money market conditions and further increases in short-term interest rates. The over-all volume of new public offerings of corporate and State and local government bonds had changed little in May, and although a rise was in prospect for June, the volume for the second quarter as a whole appeared to be low for that season of the year.

The Committee agreed that the economic situation and prospects called for somewhat slower growth in monetary aggregates over the months immediately ahead than appeared indicated for the first half of the year. A staff analysis suggested that expansion in the demand for money was likely to slow considerably from the high rate indicated for the second quarter in response to the anticipated moderation in GNP growth, to the sharp rise in short-term interest rates that had occurred in recent months, and to the running down of the deposits that had been built up in association with the unusually large refunds of Federal income taxes in the second quarter. Moreover, net expansion in consumer-type time and savings deposits at commercial banks was expected to slow appreciably as a consequence of the recent rise in short-term market interest

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rates. It was noted, however, that projections of the demand for money were subject to more uncertainty than usual because of the unknown effects of the short-term freeze on prices and the lack of information concerning the elements of the price and wage stabilization program to follow.

The staff analysis also indicated that demands for bank credit were likely to remain strong and that banks probably would continue to add substantial amounts to the outstanding volume of large-denomination CD's. Therefore, a relatively rapid rate of growth in RPD's in the June–July period—at an annual rate in a range of 9.5 to 11.5 per cent—was projected to be consistent with somewhat slower growth in the monetary aggregates over the months immediately ahead than appeared indicated for the first half of the year. The analysis suggested that such a rate of growth in RPD's might be associated with little change in money market conditions but that short- and long-term market interest rates in general might be subject to additional upward pressures in further adjustment to the firming in money market conditions that had occurred in recent weeks.

In view of the rapid monetary expansion in the second quarter and uncertainty about the demand for money in the months ahead, the Committee agreed that the lower end of the range specified for the annual rate of RPD growth in the June–July period should be lower than that projected in the staff analysis. Specifically, the members decided that operations should be directed at fostering RPD growth during that period at an annual rate within a range of 8 to 11.5 per cent. They agreed that money market conditions might be permitted to vary somewhat more in the inter-meeting period than had been contemplated at other recent meetings, if such variation appeared indicated in the conduct of operations directed toward achieving RPD growth in the desired range.

The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments and of deviations in monetary growth from an acceptable range. 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.

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

The information reviewed at this meeting, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity is slowing in the current quarter from an exceptionally rapid pace in the two preceding quarters. The unemployment rate has remained at 5 per cent. Wage rates have advanced moderately thus far this year, but the rise in both wholesale and retail prices has been exceptionally rapid. On June 13 the President announced that prices will be frozen for a maximum of 60 days while a new and more effective system of controls is developed. Phase III controls affecting wages, profit margins, dividends, and interest rates remain in effect. In foreign exchange markets, several European currencies have appreciated against the dollar by 7 to 10 per cent since early May. The U.S. merchandise trade balance continued to improve in April, as exports other than agricultural products increased sharply further and imports dipped.

Following relatively slow growth earlier in the year, the narrowly defined money stock rose sharply in May and early June. Growth in consumer-type time and savings deposits changed little, while banks' net sales of large-denomination CD's declined further. On May 16 marginal reserve requirements were imposed on large-denomination CD's and the remaining Regulation Q ceilings on such CD's were suspended. Business loan demands have remained strong, and since mid-May short-term market interest rates have advanced considerably further. Interest rates on long-term market securities in general have risen somewhat. On June 11 Federal Reserve discount rates were raised one-half point to 6½ per cent.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, the Committee seeks to achieve bank reserve and money market conditions consistent with somewhat slower growth in monetary aggregates over the months immediately ahead than appears indicated for the first half of the year.

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Votes for this action: Messrs. Burns, Brimmer, Bucher, Daane, Francis, Holland, Mayo, Mitchell, Morris, Sheehan, Clay, and Debs. Votes against this action: None.

Absent and not voting: Messrs. Balles and Hayes. (Messrs. Clay and Debs voted as alternates for Messrs. Balles and Hayes, respectively.)

Subsequent to the meeting it appeared that in the June–July period the annual rate of growth in RPD's would be above 11.5 per cent and that growth in the monetary aggregates would exceed an acceptable range, even though money market conditions had continued to tighten. On July 6, 1973, a majority of the members concurred in a recommendation by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit growth in RPD's.

2. Authorization for domestic open market operations

On July 6, 1973, Committee members 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 authorization for domestic open market operations, effective immediately, for the period ending with the close of business on July 17, 1973.

Votes for this action: Messrs. Burns, Balles, Brimmer, Francis, Holland, Mitchell, Sheehan, Debs, and Winn. Votes against this action: None.

Absent and not voting: Messrs. Bucher, Daane, Hayes, Mayo, and Morris. (Messrs. Debs and Winn voted as alternates for Messrs. Hayes and Mayo, respectively.)

This action was taken on recommendation of the System Account Manager. The Manager had advised that a substantial volume of open market purchases of securities had been required in the period since the Committee's meeting on June 19 in order to offset the reserve absorption caused by a rise in Treasury balances at Federal Reserve Banks, an increase in currency in circulation, and a decline in Federal Reserve float, and he further advised that a temporary

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increase in the leeway for System purchases appeared desirable in light of the prospective near-term needs to supply reserves.

3. Authorization for foreign currency operations

Effective July 10, 1973, the table contained in paragraph 2 of the authorization for foreign currency operations was amended to reflect increases in most of the System's swap arrangements. With these changes, paragraph 2 read as follows:

> The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for the 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	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	2,000
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	2,000
Bank of Japan	2,000
Bank of Mexico	180
Netherlands Bank	500
Bank of Norway	250
Bank of Sweden	300
Swiss National Bank	1,400
Bank for International Settlements:	
Dollars against Swiss francs	600
Dollars against other European currencies	1,250

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The increases—ranging in size from $250 million to $1 billion—in the swap arrangements with the Bank for International Settlements and with the central banks of Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, and Switzerland were made pursuant to an action the Committee had taken by unanimous vote at its meeting on March 20, 1973. In that action, the Special Manager was authorized to undertake negotiations looking toward increases in System swap lines not exceeding $6 billion in the aggregate, on the understanding that increases in individual lines, and the corresponding amendments to the foreign currency authorization, would become effective upon approval by Chairman Burns, after consultation with the U.S. Treasury. The remaining increases—of $50 million each—in the swap arrangements with the central banks of Austria, Denmark, Mexico, Norway, and Sweden were authorized by unanimous vote of the Committee at its meeting on June 19, 1973, on the understanding that they would become effective on the same date as the swap line increases for which negotiations had been authorized on March 20.

This expansion of the System's swap network was carried out in conformity with the policy that had been agreed to at the meeting of Finance Ministers and central bank governors in Paris on March 16, 1973.

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MEETING HELD ON JULY 17, 1973

Domestic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services, which had expanded at an annual rate of 8 per cent in both the last quarter of 1972 and the first quarter of 1973, had grown at a much less rapid pace in the second quarter. Staff projections continued to suggest that growth would moderate further in the second half of the year.

Retail sales declined in June, according to the advance report, and in the second quarter as a whole they were about the same as in the first quarter. Industrial production continued to rise in June—reflecting further gains in output of business equipment and industrial materials—but the advance was somewhat less rapid in the second quarter than in the first. Nonfarm employment again rose substantially in June, but as in April and May, the pace of expansion was much less rapid than it had been earlier in the year. The unemployment rate declined to 4.8 per cent after having been 5.0 or 5.1 per cent for 6 months.

The advance in average hourly earnings of production workers on nonfarm payrolls, which had been moderate in the first quarter of the year, was more rapid in the second quarter. Wholesale prices of both industrial commodities and farm and food products rose sharply further from mid-May to mid-June, prior to the imposition of the price freeze announced by the President on June 13. The increase in the total wholesale price index during the first half of the year was extraordinarily large. In May the consumer price index continued to rise at about the high average rate prevailing in the first 4 months of the year; increases in retail prices were widespread and were particularly large among foods.

The latest staff projections for the second half of 1973 were similar to those of 4 weeks earlier. The anticipated expansion in business fixed investment, although substantial, was much less rapid than in the first half of the year. Moreover, it was expected that residential construction outlays would decline appreciably; that

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business inventory investment would increase less rapidly than in the second quarter; and that growth in personal consumption expenditures would be well below the pace in the first half.

U.S. merchandise exports continued to expand in May, but imports rose sharply—in large part because of increases in import prices—and the trade balance slipped back into deficit after having been in small surplus in April. However, the average deficit for the 2 months was substantially below that in the first quarter of 1973, which in turn was much lower than the deficit in the fourth quarter of 1972.

Since the June 18–19 meeting of the Committee, the exchange rate for the dollar had declined sharply further against those continental currencies that were floating jointly against the dollar; the decline had been most severe in the 2 weeks after June 26—when the U.S. trade deficit for May was announced—and in the week ending July 6 trading was characterized by large and erratic movements in rates. Subsequently, the dollar recovered somewhat on the basis of market expectations of official intervention to support the dollar. On July 10 the System announced that its swap arrangements with other central banks had been increased by substantial amounts. Throughout the period, the dollar had been firm against the currencies of Canada, the United Kingdom, and Japan—countries that account for the bulk of U.S. foreign trade.

At U.S. commercial banks, both total loans and holdings of securities changed little in June after having expanded sharply in May, as indicated by data for the last Wednesday of each month; over the 2 months the average rate of growth was relatively high. The rate of expansion in business loans in June, although substantial, was well below that earlier in the year. Banks raised the prime rate applicable to large corporations from 7½ per cent in early June to 8¼ per cent by early July.

Growth in the narrowly defined money stock (M_1),[1] which had accelerated in April and May, stepped up somewhat further in June. Although inflows of time and savings deposits other than large-denomination CD's slackened, growth in the broadly defined money

[1]Private demand deposits plus currency in circulation.

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stock (M_2)[2] remained at the relatively high rate recorded in May. Expansion in the outstanding volume of large-denomination CD's slowed sharply, but growth in the bank credit proxy[3] remained relatively fast. Over the first half of the year, M_1, M_2, and the proxy grew at annual rates of around 6, 7.5, and 14 per cent, respectively.[4]

Inflows of savings to nonbank thrift institutions, which had picked up in May, remained relatively strong in June, despite continuing advances in market interest rates. In early July, ceilings were removed from interest rates on consumer-type time deposits of at least $1,000 having maturities of 4 years or more—at commercial banks as well as at nonbank thrift institutions. At the same time maximum rates that could be paid on time and savings deposits with shorter maturities were raised. Mortgage interest rates generally continued to rise.

System open market operations since the meeting on June 18–19 had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with somewhat slower growth in monetary aggregates over the months immediately ahead than appeared to be indicated for the first half of the year. 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 8 to 11.5 per cent in the June–July period, while avoiding unduly sharp changes in money market conditions.

Soon after the June meeting, available data suggested that in the June–July period RPD's would grow at an annual rate above the range that the Committee had specified and that M_1 would grow at a rate in excess of an acceptable range. Data that became available after the July 4 holiday continued to suggest excessive strength in RPD's and the monetary aggregates in the June–July period, even though money market conditions had continued to tighten, and on Friday, July 6, a majority of Committee members concurred in a recommendation by the Chairman that money market

[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 period relative to that in the last month preceding the period.

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conditions should be permitted to tighten to a greater extent than had been contemplated at the June meeting. The Federal funds rate, which had been about 8¾ per cent in the days before the June meeting, was close to 9¾ per cent during most of the week preceding this meeting, and in the last few days it had risen further. In the 4 weeks ending July 11, member bank borrowings averaged about $1,965 million, up from about $1,855 million in the preceding 5 weeks.

As money market conditions continued to firm in the inter-meeting period and private credit demands remained strong, short-term interest rates rose sharply further—in general to levels close to or above the peaks of late 1969 and early 1970. Other policy actions also affected market attitudes and developments. On June 29 reserve requirements on all but the first $2 million of net demand deposits at member banks were increased by ½ percentage point, applicable to average deposits in the week beginning July 5, and Federal Reserve discount rates were raised ½ percentage point, to 7 per cent, effective July 2. The market rate on 3-month Treasury bills rose from 7.20 per cent on the day before the June meeting to a peak of 7.98 per cent in early July, and on the day before this meeting it was 7.85 per cent. Over the whole period, increases in rates on bank CD's and other private instruments were larger than those for Treasury bills.

In long-term markets, interest rates in general advanced considerably, despite continuation of moderate demands for funds in the capital markets. Although the over-all volume of new public offerings of corporate and of State and local government bonds rose somewhat in June, the volume for the second quarter as a whole was low for that season of the year, and a moderate decline was in prospect for July.

The Treasury was expected to announce on July 25 the terms of its mid-August refunding. Of the maturing issues, $4.5 billion were held by the public.

The Committee agreed that the economic situation and prospects called for slower growth in monetary aggregates over the months immediately ahead than had occurred on average in the first half of the year. A staff analysis suggested that expansion in the demand for money was likely to slow considerably from the high rate recorded in the second quarter—in response to the anticipated

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moderation in GNP growth and to the sharp rise in short-term interest rates that had occurred in recent months. Because of the rise in short-term market rates, moreover, net expansion in consumer-type time and savings deposits at commercial banks was expected to slow appreciably despite the increase in rate ceilings announced in early July. As a consequence, it was anticipated that banks would attempt to expand the outstanding volume of large-denomination CD's; the increase in these issues in the July–August period was expected to remain relatively large.

The staff analysis suggested that a relatively rapid rate of growth in RPD's in the July–August period—at an annual rate in a range of 11½ to 13½ per cent—would be consistent with slower growth in the monetary aggregates over the months immediately ahead than had occurred in the first half of the year. The analysis also suggested that such a rate of growth in RPD's might be associated with little change in money market conditions but that short- and long-term market interest rates in general might be subject to additional upward pressures in further adjustment to the firming in money market conditions that had occurred in recent weeks.

The Committee decided that operations should be directed at fostering RPD growth during the July–August period at an annual rate within a range of 11½ to 13½ per cent, while avoiding unduly sharp changes in money market conditions. The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments, of the forthcoming Treasury financing, and of deviations in monetary growth from an acceptable range. 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 domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting, including recent developments in industrial production, employment, and retail sales, suggests that growth in economic activity moderated in the second quarter from the exceptionally rapid pace of the two preceding quarters. Increases in employment were relatively substantial, how-

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ever, and in June the unemployment rate dropped below 5 per cent. Wage rates advanced at a faster pace during the second quarter than earlier in the year. In the months immediately preceding the price freeze imposed in mid-June, the rise in prices of both industrial commodities and farm and food products remained extraordinarily rapid.

The U.S. merchandise trade balance worsened in May as import prices rose sharply further, but the trade deficit remained well below the first-quarter average. In foreign exchange markets, the jointly floating continental European currencies rose sharply further against the dollar in early July. After the first week in July, the dollar recovered somewhat on the basis of market expectations of official intervention. On July 10 the Federal Reserve announced substantial increases in its swap arrangements with other central banks.

Both the narrowly and more broadly defined money stock rose sharply in May and June, although inflows of consumer-type time and savings deposits slackened somewhat in the latter month. Expansion in bank credit continued at a substantial pace. Since mid-June both short- and long-term market interest rates have advanced considerably further, with the sharpest increases in the short-term sector. On June 29 increases were announced in Federal Reserve discount rates, from 6½ to 7 per cent, and in member bank reserve requirements; on July 5 ceiling interest rates were increased on time and savings deposits at commercial banks and other thrift institutions.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a more sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than occurred on average in the first half of the year.

> Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Morris, and Sheehan. Vote against this action: Mr. Francis. Absent and not voting: Mr. Mitchell.

Mr. Francis dissented from this action not because he disagreed with the objectives of the policy adopted by the Committee but

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because he believed that—as had proved to be the case following other recent meetings—the objectives would not be achieved because of the constraint on money market conditions.

Subsequent to the meeting it appeared that in the July–August period the annual rate of growth in RPD's and in the monetary aggregates might exceed acceptable ranges, even though money market conditions had continued to tighten. On August 3, 1973, the available members—with the exception of Messrs. Bucher and Sheehan—concurred in a recommendation by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit growth in RPD's.

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MEETING HELD ON AUGUST 21, 1973

Domestic policy directive

Estimates of the Commerce Department indicated that real output of goods and services had increased at an annual rate of only about 2.5 per cent in the second quarter of the year, after having grown at a rate of about 8.5 per cent in the first quarter and of 8.0 per cent in the last quarter of 1972. Staff projections continued to suggest that growth would be moderate in the third quarter.

In July retail sales rose sharply, recovering much more than they had declined in June. Expansion in industrial production picked up somewhat, reflecting widespread gains among consumer goods, business equipment, and industrial materials. Nonfarm payroll employment changed little, after having expanded at a more moderate pace during the spring than in earlier months, but the average factory workweek lengthened. The civilian labor force declined, and the unemployment rate edged down further to 4.7 per cent.

Average hourly earnings of production workers on nonfarm payrolls advanced in July at about the moderate average rate of the first 6 months of the year. Between mid-June and mid-July average wholesale prices of farm and food products fell sharply, in large part because of the imposition of export controls on some commodities; decreases were especially large for animal feeds, grains, and oil seeds. However, the temporary price freeze imposed on June 13 was lifted for most foods on July 18, and wholesale prices of farm and food products adjusted sharply upward. Moreover, crop conditions as of August 1 suggested that the 1973 harvests—although still at record levels—would not be quite so large as had been expected, and prices of corn, wheat, and soybeans soared. Wholesale prices of industrial commodities changed little from mid-June to mid-July; the freeze on these prices remained in force until August 12.

The latest staff projections suggested that growth in real GNP over the balance of the year would be somewhat greater than the slow pace in the second quarter. It was anticipated that business

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fixed investment would expand more rapidly and that inventory investment would increase appreciably; in the second quarter growth in fixed investment had slowed and inventory investment had changed little. It was also expected that personal consumption expenditures would rise at a slightly faster pace but that residential construction outlays would decline substantially.

In June the value of U.S. exports continued to expand while the value of imports changed little, and the deficit in merchandise trade declined appreciably. The trade deficit in the second quarter as a whole was well below that in the first quarter—which in turn was much lower than the deficit in the fourth quarter of 1972—and the balance on goods and services moved into surplus for the first time since the third quarter of 1971.

The evidence of progress toward equilibrium in the U.S. balance of payments—along with a rise in interest rates relative to those abroad—had contributed to a strong recovery in the exchange rate for the dollar against continental European currencies since the end of July and also to a continued firming against sterling, the Japanese yen, and the Canadian dollar. In the first half of August, moreover, the over-all balance of payments on an official settlements basis was in surplus. By mid-August, the price of gold had fallen about one-fourth from a peak in early July.

At U.S. commercial banks, business loans expanded sharply further in July, and growth in both real estate and consumer loans—although below the average rates in the second quarter—remained strong. Banks liquidated a substantial amount from their holdings of Treasury bills, but the increase in total bank credit remained large. The prime rate that banks applied to large corporations was raised in four steps from 8¼ per cent in mid-July to 9¼ per cent in mid-August.

Growth in both the narrowly defined money stock (M_1)[1] and the broadly defined money stock (M_2),[2] which had been rapid in June and during the second quarter as a whole, slowed markedly in July. Inflows of time and savings deposits other than large-denomination CD's slackened further. After the Regulation Q actions

[1]Private demand deposits plus currency in circulation.

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

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of early July—in which rate ceilings were removed on consumer-type time deposits in denominations of at least $1,000 having maturities of 4 years or more and maximum rates were raised on time and savings deposits with shorter maturities—many banks increased their offering rates, and net inflows of such deposits picked up in late July and early August. Banks also raised the rates paid on large-denomination CD's, and the outstanding volume of such CD's expanded by a substantial amount; as a result, growth in the bank credit proxy[3] remained relatively rapid despite a sizable drop in U.S. Government deposits. Over the first 7 months of the year, M_1, M_2, and the proxy grew at annual rates of about 6.0, 7.5, and 13 per cent, respectively.[4]

Nonbank thrift institutions experienced net outflows of savings in July for the first time since January 1970, even though these institutions, like commercial banks, generally had raised rates paid on deposits following changes in rate ceilings effective at the beginning of July. To meet deposit withdrawals and mortgage commitments made earlier, savings and loan associations borrowed a record amount from Federal home loan banks. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages rose sharply.

On July 25 the Treasury announced that on July 31 it would auction up to $2 billion of an existing issue of 7¾ per cent notes due to mature in 4 years and that on August 1 it would auction up to $500 million of 20-year, 7½ per cent bonds (callable in 15 years) to refund part of $4.7 billion of publicly held securities maturing on August 15. In those auctions the Treasury sold $2 billion of the notes at an average price to yield 8.03 per cent and $500 million of the bonds at the lowest bid price (paid by all successful bidders) to yield about 8.00 per cent; of the bonds, $240 million were acquired by Government accounts. The Treasury also announced on July 25 that on August 8 it would auction $2 billion of 35-day tax-anticipation bills, dated August 15; the bills were sold at an average price to yield 9.80 per cent. In the interim,

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

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

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the Treasury experienced an unexpected one-day cash need, which it financed by selling $351 million of special certificates of indebtedness to the Federal Reserve Banks on August 15; the certificates were redeemed the next day. On August 20 the Treasury announced that in a new cash financing on August 24 it would auction $2 billion of 25-month notes.

System open market operations since the meeting on July 17 had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than had occurred on average in the first half of the year. 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 11½ to 13½ per cent in the July–August period, while avoiding unduly sharp changes in money market conditions.

During the first 2 weeks after the July meeting, available data had suggested that in the July–August period RPD's would grow at a rate above the range that the Committee had specified and that the monetary aggregates would grow at rates in excess of an acceptable range. Therefore, the System had acted promptly to limit expansion in RPD's, and the Federal funds rate—which had averaged around 10¼ per cent in the statement week ending July 18—rose to around 10½ per cent in the next two statement weeks. On August 3, a majority of the Committee members had concurred in a recommendation by the Chairman that money market conditions should be permitted to tighten still further if necessary to limit growth in RPD's and in the monetary aggregates, but in light of subsequent developments, tighter conditions were not sought and the funds rate remained close to 10½ per cent. In the 5 weeks ending August 15, member bank borrowings averaged around $1,965 million, about the same as in the preceding 4 weeks.

The additional tightening in money market conditions early in the inter-meeting period along with sustained strength in credit demands led to further sharp increases in short-term market interest rates until mid-August, and then rates turned down. The market rate on 3-month Treasury bills rose from 7.85 per cent on the day before the July meeting to a high of 9.05 per cent on August 14 and then fell back to 8.79 per cent on the day before this meeting. On August 13 increases in Federal Reserve discount rates

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from 7 to 7½ per cent were announced, effective at 10 Reserve Banks on August 14; shortly thereafter, rates were raised at the two remaining Banks.

In long-term markets, interest rates also rose sharply further from mid-July to mid-August, apparently in reaction to the advance in short-term rates. Later, however, long-term rates fell back appreciably. The over-all volume of new public offerings of corporate and State and local government bonds declined moderately in July, and little change in the volume was in prospect for August.

The Committee agreed that the economic situation and prospects called for slower growth in monetary aggregates over the months immediately ahead than had occurred on average thus far in 1973. A staff analysis suggested that despite the substantial growth expected in nominal GNP the demand for money in the period ahead would be limited by the sharp rise in short-term interest rates that had occurred in recent months. In the immediate future, moreover, monetary growth was likely to be restricted by a downward adjustment in the public's demand for cash balances in response to the increases in rates paid on time and savings deposits.

The analysis also suggested, however, that business demands for bank loans would remain strong and that banks would continue to expand the outstanding volume of large-denomination CD's at a relatively fast pace. Reflecting the expansion in such CD's and also the imposition in late June of marginal reserve requirements on them, a relatively rapid rate of growth in RPD's in the August–September period—at an annual rate in a range of 13 to 15 per cent—was thought likely to be consistent with slower growth in monetary aggregates over the months immediately ahead.

In view of the rapid pace at which RPD's had grown in recent months, the Committee decided that open market operations should be directed at fostering RPD growth during the August–September period at an annual rate within a range of 11 to 13 per cent, while avoiding marked changes in money market conditions. The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments, of the forthcoming Treasury financing, and of deviations in monetary growth from an acceptable range. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled

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meeting if significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

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

> The information reviewed at this meeting suggests that growth in real output of goods and services, which slowed in the second quarter from the exceptionally rapid pace of the two preceding quarters, will be moderate in the third quarter. Increases in nonfarm employment also have slowed in recent months, but the unemployment rate has declined. The rate of rise in wage rates has remained relatively moderate. The exceptionally rapid advance in prices was interrupted in July by the temporary freeze imposed in mid-June. However, farm and food prices adjusted sharply upward after mid-July, when the freeze was lifted on most such products. The U.S. merchandise trade balance improved in June, and the balance on goods and services was in surplus in the second quarter for the first time in nearly two years. Since the end of July the dollar has strengthened markedly in foreign exchange markets, and the price of gold has dropped sharply.
>
> Both the narrowly and more broadly defined money stock, which had increased rapidly in May and June, grew more slowly in July. Inflows of consumer-type time and savings deposits strengthened again at banks in late July and early August, while net outflows were experienced at nonbank thrift institutions. Expansion in bank credit has continued at a substantial pace. Since mid-July short-term market interest rates have advanced considerably further on balance. Long-term rates also rose substantially for much of that period, but most recently they have declined in the course of a sharp market rally. On August 13 increases were announced in Federal Reserve discount rates from 7 to 7½ per cent.
>
> In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a sustainable rate of advance in economic activity, and progress toward equilibrium in the country's balance of payments.
>
> To implement this policy, while taking account of international and domestic financial market developments and the forthcoming Treasury financing, the Committee seeks to achieve bank reserve and money market conditions consistent with slower growth in monetary aggregates over the months immediately ahead than has occurred on average thus far this year.

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Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Morris, and Sheehan. Vote against this action: Mr. Francis.

Absent and not voting: Mr. Mitchell.

Mr. Francis dissented from this action, although he agreed with the objectives of the policy adopted by the Committee, because he could not accept the constraint placed on money market conditions.

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MEETING HELD ON SEPTEMBER 18, 1973

Domestic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services, which had dropped to an annual rate of about 2.5 per cent in the second quarter from rates above 8.0 per cent in the two preceding quarters, would pick up somewhat in the current quarter. Staff projections suggested that growth in real output would slow slightly in the fourth quarter and would slacken further in the first half of 1974; the rise in prices was expected to remain rapid.

In August industrial production declined slightly as output of automobiles and trucks was reduced sharply by shortages of parts, hot weather, and work stoppages. Nonfarm payroll employment, which had been stable in July, increased appreciably, although employment in manufacturing continued to change little; over the latest 3 months, the rate of growth in nonfarm employment was about two-thirds of the rate over the preceding 9 months. In August the unemployment rate edged up to 4.8 per cent. Retail sales, according to the advance report, remained at the high level reached in July, and the average for the 2 months was above that for the second quarter.

Average hourly earnings of production workers on nonfarm payrolls advanced moderately in August, but increases in June and July were now reported to have been larger than had been indicated by earlier data; as a result, the rise over the 3-month period was more rapid than that earlier in the year. Wholesale prices of farm and food products rose sharply between mid-July and mid-August, after the temporary price freeze that had been imposed on June 13 was lifted for most foods on July 18. Later, prices of grains, livestock, poultry, and other farm products dropped, but in general prices of farm and food products remained far above pre-freeze levels. Wholesale prices of industrial commodities increased ap-

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preciably between mid-July and mid-August, although for these commodities the freeze remained in force until August 12. Reflecting the freeze, the rise in the consumer price index had slowed markedly in July.

Staff projections for the fourth quarter suggested that residential construction outlays would decline substantially and that consumption expenditures would expand at a rate below that in the third quarter. It was also expected, however, that both Federal and State and local government purchases of goods and services would rise substantially and that business inventory investment would increase further.

U.S. merchandise exports continued to expand in July—reflecting sustained gains in exports of nonagricultural goods—and imports declined; the trade balance, after registering progressively smaller deficits from the fourth quarter of 1972 to the second quarter of 1973, shifted into surplus. Net foreign purchases of U.S. equity securities, which had fallen sharply in the second quarter, rose substantially in July.

Foreign exchange markets in general had been quiet in recent weeks, although a 5 per cent revaluation of the Dutch guilder announced on the weekend before this meeting provoked some speculation that other continental currencies also would be revalued. The exchange rates for the dollar against major foreign currencies—which had strengthened significantly in the first half of August—had changed little since then. In August, moreover, the U.S. balance of payments on an official settlements basis was in surplus, after having been in small deficit in July.

At U.S. commercial banks, business loans expanded at a very rapid rate in August—although the expansion appeared to have slackened late in the month—and growth in other types of loans remained strong. Banks continued to liquidate substantial amounts from their holdings of Government securities, but total bank credit increased considerably further. The prime rate that banks charged on loans to large corporations was raised in three steps from 9¼ per cent in mid-August to 10 per cent in mid-September.

The narrowly defined money stock (M_1),[1] which had grown at an annual rate of about 10.5 per cent in the second quarter and

[1]Private demand deposits plus currency in circulation.

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of 5 per cent in July,[2] declined somewhat in August. Inflows of time and savings deposits other than large-denomination CD's increased sharply—reflecting in part inflows into 4-year time deposits in response to the higher interest rates generally being offered on these instruments, which had been exempted from Regulation Q ceilings at the beginning of July—and the more broadly defined money stock (M_2)[3] grew at a slightly higher rate in August than in July. Banks raised further the rates paid on large-denomination CD's, and the outstanding volume of such CD's expanded by a substantial amount in August, as in July; growth in the bank credit proxy[4] was rapid. On September 7 the Federal Reserve announced an increase from 8 to 11 per cent in marginal reserve requirements on large-denomination CD's, effective in the statement week beginning October 4 against deposits held 2 weeks earlier.

Nonbank financial institutions, like commercial banks, raised rates after the 4-year deposits were exempted from rate ceilings, but they experienced net outflows of total deposits in the July–August period. In both July and August savings and loan associations borrowed large amounts from Federal home loan banks to meet mortgage commitments, and they sharply reduced their new commitments. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages rose sharply further in August.

In the Treasury's cash financing of August 24, which had been announced on August 20, $2 billion of a 25-month, 8⅜ per cent note were auctioned at a price to yield 7.94 per cent. The Treasury financed additional cash needs by selling special certificates of indebtedness to the Federal Reserve Banks; such certificates were outstanding on several days, and their volume reached a peak of $443 million on September 11.

System open market operations since the meeting on August 21 had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with slower growth in

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

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

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

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monetary aggregates over the months immediately ahead than had occurred on average in the first 7 months of the year. 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 11 to 13 per cent during the August–September period, while avoiding unduly sharp changes in money market conditions.

Soon after the August meeting, available data suggested that in the August–September period RPD's would grow at a rate above the range that the Committee had specified and that the monetary aggregates would grow at rates in excess of an acceptable range. Therefore, the System had acted promptly to limit expansion in RPD's, and the Federal funds rate—which had been around 10½ per cent at the time of the August meeting—rose to about 10¾ per cent in the statement week ending August 29. Later data suggested that growth in the monetary aggregates was slowing and that RPD's would grow in the August–September period at a rate within the specified range. The Federal funds rate remained about 10¾ per cent. In the 4 weeks ending September 12, member bank borrowings averaged $2,135 million, compared with $1,965 million in the preceding 5 weeks.

Short-term market interest rates, especially rates for Treasury bills, declined just after the August meeting of the Committee, in large part because of growing expectations among market participants that the maximum degree of monetary restraint had been reached. However, rates rose again in association with the further tightening of money market conditions early in the inter-meeting period and with the September 7 announcement of the increase in reserve requirements against large-denomination CD's. The market rate on 3-month Treasury bills dropped from 8.79 per cent on the day before the August meeting to 8.46 per cent a few days afterwards, rose to a high of 9.04 per cent on September 11, and then fell back to 8.70 per cent on the day before this meeting.

Yields on long-term securities, which had turned down in early August, continued to decline through most of the inter-meeting period—in part, like short-term rates, because of market expectations that the maximum degree of monetary restraint had been reached, but also because of light offerings of new securities. The volume of new public offerings of corporate bonds declined more than seasonally in August, and the recovery in the volume in

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prospect for September was less than seasonal. In the week before this meeting, long-term rates edged up.

The Committee agreed that the economic situation and prospects called for moderate growth in monetary aggregates over the months ahead. A staff analysis indicated that, although transactions demands for money probably would expand, growth in the money stock in the months ahead was likely to be limited in lagged response to the rise in short-term interest rates that had occurred in recent months. Consequently, achievement of moderate growth in monetary aggregates within an acceptable period of time was likely to require some easing in money market conditions. In the current environment of unusual sensitivity of expectations in financial markets, however, signs that monetary policy was moving toward a significant easing in money market conditions might result in large expectational declines in short-term interest rates and also in further declines in long-term rates, tending to erode the existing degree of monetary restraint.

The staff analysis also indicated that completion of the realignment in consumers' holdings of financial assets—which had been taking place in response to changes in the structure of interest rates—was likely to slow the growth in consumer-type time and savings deposits even if market interest rates declined moderately. It was expected that growth in business loans, although slowing from the exceptionally rapid pace in August, would remain relatively rapid and that banks' demands for funds would continue strong; however, expansion in the oustanding volume of large-denomination CD's was likely to be tempered by the recent increase in the marginal reserve requirement against such CD's. In large part because of the reserves required against the expanding volume of large-denomination CD's, rapid growth in RPD's in the September–October period—at an annual rate in a range of 15 to 17 per cent—was thought likely to be consistent with moderate growth in the narrowly and the more broadly defined money stock over the months ahead.

In view of the relatively weak behavior of the monetary aggregates in August and prospects for limited expansion in the months immediately ahead, the Committee concluded that reserve-supplying operations should not become restrictive unless RPD's in the September–October period appeared to be growing at an annual

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rate of more than 18 per cent. Specifically, the Committee decided that operations should be directed at fostering RPD growth during that period within a range of 15 to 18 per cent, while taking account of deviations in monetary growth from an acceptable range and avoiding unduly sharp changes in money market conditions. Although the members recognized that pursuit of the objective for RPD's might be associated with some easing in money market conditions, a number of them cautioned against the risk of generating market impressions that monetary restraint was being relaxed significantly, and it was agreed that, in the conduct of operations, account should be taken of domestic financial market developments. As at other recent meetings, the Committee also agreed that account should be taken of international financial market developments. 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 domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in real output of goods and services, which slowed in the second quarter from the exceptionally rapid pace of the two preceding quarters, will be moderate in the third quarter. Although nonfarm employment rose sharply in August, the average gain in recent months has been smaller than earlier and the unemployment rate has changed little at a level somewhat below 5 per cent. The exceptionally rapid advance in prices was interrupted in July by the temporary freeze imposed in mid-June. However, farm and food prices surged after mid-July—when the freeze was lifted on most such products—and despite later appreciable declines, they remained far above pre-freeze levels. The U.S. merchandise trade balance improved further in July, and net foreign purchases of U.S. stocks increased. In recent weeks exchange rates for the dollar against most foreign currencies have changed little on balance after strengthening in the first half of August, and the balance of payments has been in surplus on an official settlements basis.
>
> The narrowly defined money stock, which had increased moderately in July, declined somewhat in August. The more broadly defined money stock continued to expand as a result of net inflows

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at banks of consumer-type time deposits. Nonbank thrift institutions experienced net deposit outflows in the July–August period. Expansion in bank credit has continued at a substantial pace. On September 7 the Federal Reserve announced an increase from 8 to 11 per cent in marginal reserve requirements on large-denomination CD's. Interest rates on long-term market securities declined from early August to early September, partly because of growing expectations that the maximum degree of monetary restraint had been reached. Later, however, such expectations weakened and some long-term rates turned up. Short-term rates generally remained under upward pressure 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 abatement of inflationary pressures, a sustainable rate of advance in economic activity, and continued progress toward equilibrium in the country's balance of payments.

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

Votes for this action: Messrs. Burns, Balles, Bucher, Daane, Francis, Holland, Mayo, Mitchell, Morris, Sheehan, and Debs. Votes against this action: None.

Absent and not voting: Messrs. Brimmer and Hayes. (Mr. Debs voted as alternate for Mr. Hayes.)

On October 1 the System Account Manager reported that significant inconsistencies had developed among the Committee's various objectives and constraints. Incoming data had suggested that in the September–October period the annual rate of growth in RPD's would fall well below the range specified by the Committee at the September 18 meeting and that growth in both M_1 and M_2 would fall short of acceptable ranges. In domestic financial markets, however, short-term interest rates had dropped very sharply—although the Federal funds rate had remained close to 10¾ per cent—and long-term rates had continued to decline as many market participants had become convinced that the System had relaxed its policy of restraint and that in general interest rate peaks had been passed.

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The Committee held a telephone meeting on October 2, in which all members other than Chairman Burns participated. A minority of the members—Messrs. Balles, Bucher, Francis, Morris, and Sheehan—favored proceeding to provide reserves at a rate consistent with an easing in money market conditions to the degree considered acceptable at the meeting on September 18, provided that market conditions did not become disorderly and that growth in the aggregates appeared to remain below acceptable ranges. The majority of the members, however, concluded that at least over the next few days money market conditions should be allowed to ease less than originally considered acceptable and then only if that did not threaten to reinvigorate the sharp rally in markets for short-term securities. It was understood that further consultation was likely to be desirable before the meeting scheduled for October 16.

The Committee held another telephone meeting on October 10, in which all members participated. The additional week's data available by then suggested that in the September–October period growth in RPD's and the monetary aggregates would be still weaker than had been expected earlier. Although System operations had supplied large amounts of reserves and short-term market interest rates had declined further on balance, the Federal funds rate on most days through October 8 had remained near 10¾ per cent. Committee members agreed unanimously that reserves should be supplied at a rate consistent with some easing in money market conditions beyond that decided upon on October 2 and that conditions should be eased somewhat further if the recent weakness in RPD's and in the monetary aggregates should be confirmed by data that would become available after the meeting.

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MEETING HELD ON OCTOBER 16, 1973

Domestic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services—which was estimated to have picked up somewhat in the third quarter from an annual rate of about 2.5 per cent in the second quarter—would remain moderate in the current quarter. Staff projections continued to suggest that growth in real output would slacken in the first half of 1974 and that the rise in prices would remain rapid.

In September industrial production rose appreciably, owing to a partial recovery in output of motor vehicles—following a sharp reduction in August caused by shortages of parts and by other temporary influences—and to further gains in output of business equipment and industrial materials. Nonfarm payroll employment continued to rise, but expansion during the third quarter was well below the rapid pace earlier in the year, reflecting in large part a leveling-off in employment in manufacturing. The unemployment rate remained at 4.8 per cent. Retail sales declined in both August and September, but sales in the third quarter as a whole were moderately above the second-quarter level.

Wholesale prices of farm and food products declined substantially in September—for the most part because of sizable decreases in prices of meat, poultry, and eggs—but the decline was small in relation to the extraordinarily large increase in August. The rise in wholesale prices of industrial commodities, which had slowed for 2 months after mid-June when the freeze was imposed, accelerated in September. From mid-July to mid-August the consumer price index had risen sharply, reflecting not only a record increase in prices of foods following the relaxation of food price controls on July 18 but also exceptionally large advances in average prices of other consumer goods and of consumer services. The index of average hourly earnings of production workers on nonfarm payrolls

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had advanced at a faster pace in recent months than it had earlier in the year.

Staff projections for the current quarter in general were similar to those of 4 weeks earlier. It was expected that both Federal and State and local government purchases of goods and services would rise appreciably, that consumption expenditures would expand at a moderate pace, and that business inventory investment would increase further. It was also anticipated, however, that residential construction outlays would decline substantially.

Exchange rates for the dollar against most foreign currencies had changed little since mid-August, following a significant strengthening earlier in the month. In September, as in August, the U.S. balance of payments on an official settlements basis was in surplus.

U.S. merchandise exports expanded substantially further in August, reflecting increases in both prices and the physical volume of agricultural commodities; however, imports rose even more—for the most part owing to a large increase in imports of fuels following a dip in July—and the trade balance slipped back into deficit. For July and August combined, the trade balance was close to zero. Net foreign purchases of U.S. equity securities, which had risen considerably in July, remained large in August.

At U.S. commercial banks, expansion in loans to business slowed in September to the lowest rate in more than a year, in part because business borrowers shifted to the commercial paper market in response to declines in market interest rates relative to effective rates on bank loans. Most other types of bank loans continued to expand rapidly, but banks again liquidated substantial amounts of their holdings of Government securities. Altogether, the increase in total bank credit was small.

The narrowly defined money stock (M_1)[1] declined in September for the second successive month; M_1 changed little over the third quarter, after having grown at a rate of about 10.5 per cent in the second quarter.[2] Inflows of time and savings deposits other

[1]Private demand deposits plus currency in circulation.

[2]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 preceding the quarter.

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than large-denomination CD's were substantial in September—although well below the high rate of August—and the more broadly defined money stock (M_2)[3] expanded slightly. The outstanding volume of large-denomination CD's continued to rise in early September, but the volume declined after midmonth as banks reduced the rates paid on such CD's in response to the weakening in business loan demand; over the whole month, the outstanding volume changed little, and growth in the bank credit proxy[4] slowed markedly.

Nonbank thrift institutions experienced a net increase in savings deposits in September—even after adjustment for the crediting of interest and other seasonal influences—following net outflows of funds in August. Although outstanding borrowings by savings and loan associations from the Federal home loan banks rose substantially in September, the increase was below that in each of the two preceding months. Mortgage interest rates rose appreciably further.

Short-term market interest rates began to decline sharply soon after the Committee's meeting on September 18, in large part because of widespread market expectations that the recent weakness in the behavior of the monetary aggregates would lead to more aggressive System efforts to supply reserves and, consequently, to an easing in money market conditions. The market rate on 3-month Treasury bills was 7.19 per cent on the day before this meeting, compared with 8.70 per cent on the day before the September meeting and with an inter-meeting period low of 6.96 per cent on September 27.

Yields on long-term securities, which had turned down in early August, declined moderately further after the September meeting—although the decline, as usual, was not so sharp as that for short-term instruments. The volume of new public offerings of corporate bonds fell contraseasonally in September, following a more-than-seasonal reduction in August, but a substantial rise in the volume was in prospect for October.

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

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

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The Treasury was expected to announce on October 24 the terms of its mid-November refunding. Of the maturing issues, $3.6 billion were held by the public.

System open market operations since the meeting on September 18 had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead, while taking account of international and domestic financial market developments. Operations initially had been directed toward fostering growth in reserves available to support private nonbank deposits (RPD's) at an annual rate in a range of 15 to 18 per cent, while avoiding unduly sharp changes in money market conditions.

In late September incoming data suggested that in the September–October period growth in both M_1 and M_2 would fall short of acceptable ranges and that RPD's would grow at a rate well below the range that the Committee had specified, in part because of the decline in the outstanding volume of large-denomination CD's that began in late September. The System Open Market Account had been avoiding overly aggressive reserve-supplying operations because of the substantial declines in market interest rates that had occurred and a concern that such operations would contribute to further declines in interest rates. The Federal funds rate remained at about 10¾ per cent. On October 1 the Account Manager reported that significant inconsistencies existed among the Committee's various objectives and constraints, and the Committee held a telephone meeting on October 2.

Following the telephone meeting, at which the majority of the members concluded that money market conditions should be allowed to ease somewhat if such easing did not threaten to reinvigorate the sharp rally in markets for short-term securities, the System became somewhat more aggressive in supplying reserves. Short-term interest rates in general declined further, but the Federal funds rate on most days through October 8 remained close to 10¾ per cent. Moreover, incoming data indicated that growth in RPD's and the monetary aggregates would be even weaker in the September–October period than had been expected a week earlier.

On October 10 the Committee held another telephone meeting, at which the members agreed that in the few days remaining until this meeting, reserves should be supplied at a rate consistent with

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some easing in money market conditions beyond that decided upon on October 2. In the days just before this meeting, the Federal funds rate was around 10 per cent. In the 4 weeks ending October 10, member bank borrowings averaged about $1,690 million, down from an average of $2,135 million in the preceding 4 weeks.

At this meeting the Committee agreed that the economic situation and prospects continued to call for moderate growth in monetary aggregates over the months ahead. A staff analysis indicated that, although the transactions demand for money would probably expand, the sharp rise in short-term interest rates that had occurred through early September would tend to dampen the demand for money in the months ahead. Consequently, achievement of moderate growth in monetary aggregates was likely to require some easing in money market conditions.

The staff analysis also indicated that growth of consumer-type time and savings deposits probably would strengthen and that expansion in the outstanding volume of large-denomination CD's would be resumed in response to moderate growth in business loan demand. However, because of the recent weakness in the aggregates in combination with lagged reserve accounting, relatively slow growth in RPD's in the October–November period—at an annual rate in a range of 2 to 4 per cent—was thought likely to be consistent with moderate growth in both the narrowly defined and the more broadly defined money stock over the months ahead.

In view of the weak behavior of the monetary aggregates in August and September, the Committee concluded that reserve-supplying operations should not become restrictive unless RPD's in the October–November period appeared to be growing at an annual rate of more than 5 per cent. Specifically, the members decided that operations should be directed at fostering RPD growth during that period within a range of 2 to 5 per cent, while avoiding unduly sharp changes in money market conditions. The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments, of the forthcoming Treasury financing, and of deviations in monetary growth from an acceptable range. It was understood that the Chairman might call upon the Committee to consider the need for supplementary instructions before the next scheduled meeting if

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significant inconsistencies appeared to be developing among the Committee's various objectives and constraints.

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

The information reviewed at this meeting suggests that growth in real output of goods and services in the fourth quarter is likely to remain at about the moderate rate indicated for the third quarter. In recent months manufacturing employment has leveled off and total nonfarm employment has expanded less rapidly than earlier; the unemployment rate has remained at 4.8 per cent. The advance in wage rates has been somewhat faster than earlier. In September wholesale prices of industrial commodities rose appreciably; farm and food prices declined, but by far less than they had risen in August. The U.S. merchandise trade balance weakened slightly in August. Net foreign purchases of U.S. stocks continued large, however, and the balance of payments on an official settlements basis was in surplus in both August and September. Exchange rates for the dollar against most foreign currencies have changed little since mid-August.

The narrowly defined money stock, which had risen sharply during the second quarter, declined in September for the second successive month. The more broadly defined money stock expanded slightly in September as a result of net inflows at banks of consumer-type time deposits. The deposit experience at nonbank thrift institutions improved somewhat in September following a period of sizable outflows. Bank credit—which had been expanding rapidly—increased little as business loan growth slowed markedly, and after mid-September the outstanding volume of large-denomination CD's declined substantially. Short-term market interest rates fell sharply from mid-September to early October, partly as a result of a shift in market expectations regarding monetary policy, and rates on long-term market securities declined moderately further.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a sustainable rate of advance in economic activity, and continued progress toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing and of international and domestic financial market

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developments, the Committee seeks to achieve bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead.

Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Holland, Mayo, Mitchell, Morris, and Sheehan. Votes against this action: None.

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MEETING HELD ON NOVEMBER 19–20, 1973[1]

Domestic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services—which had risen to an annual rate of about 3.5 per cent in the third quarter from about 2.5 per cent in the second quarter—would remain moderate in the current quarter. Staff projections continued to suggest that, in the absence of an oil crisis, growth of real output would slacken in the first half of 1974 and that the rise in prices would remain rapid. It was also suggested that continuation of the embargo on the flow of Arab oil to the United States—announced in the latter part of October—could have significantly adverse effects on the U.S. economy.

In October industrial production continued to grow at a substantial pace, reflecting advances in output of business equipment and consumer goods; output of materials, which was pressing against the limits of capacity in some industries, changed little. Employment expanded in manufacturing, after a 3-month period of little change, and total nonfarm payroll employment increased appreciably. The unemployment rate dropped from 4.8 to 4.5 per cent, the lowest rate in 3½ years. And advance reports indicated that retail sales rose substantially during the month, although sales of new automobiles declined significantly.

The index of average hourly earnings of production workers on nonfarm payrolls continued to advance at a relatively fast pace in October. During the third quarter compensation per manhour in the private nonfarm sector of the economy increased substantially more than output per manhour, and unit labor costs rose sharply further.

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[1]This meeting was held over a 2-day period beginning on the afternoon of Nov. 19, 1973, in order to provide more time for the staff presentation concerning the economic situation and outlook and the Committee's discussion thereof.

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The uptrend in wholesale prices of industrial commodities accelerated in October, reflecting a large rise in prices of petroleum products and other fuels and widespread increases among other commodities. Wholesale prices of farm and food products fell substantially for the second consecutive month, as a result of marked decreases for livestock, meats, poultry, and soybeans; however, the index remained well above the pre-freeze level of early June. In September the rate of advance of the consumer price index slowed as retail prices of foods declined slightly after having risen sharply in August.

Staff projections for the first half of 1974 suggested that business fixed investment would rise considerably further, that State and local government purchases of goods and services would continue to grow at a substantial rate, and that consumption expenditures would expand at about the moderate pace of the second half of 1973. However, it was also anticipated that the decline in residential construction outlays would persist and that business inventory investment would level off.

U.S. merchandise exports rose sharply further in September—reflecting for the most part considerable increases in exports of capital equipment and industrial materials—while imports declined. As a result, the trade balance moved into substantial surplus. For the third quarter as a whole, the trade surplus was sizable for the first time in 3 years. The over-all balance of payments on an official settlements basis also was in substantial surplus in the third quarter, and it remained so in October.

Following the announcement in late October of the large U.S. trade surplus, demand for dollars rose considerably, and exchange rates for the dollar appreciated against major foreign currencies. The dollar registered a further sizable appreciation after the development of the oil crisis, which was interpreted in the markets as creating particularly severe problems for the economies of Western Europe and Japan.

Outstanding business loans of U.S. commercial banks, which had increased little in September, were unchanged in October. Business borrowers continued to shift to the commercial paper market as market interest rates declined further relative to effective rates on bank loans—even though most banks lowered the prime rate applicable to large corporations from 10 to 9¾ per cent during

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the month and a few reduced the rate to 9½ per cent. Expansion in most other types of loans slowed in October, and banks continued to liquidate substantial amounts of their holdings of Government securities. Bank holdings of other securities—primarily Federal agency issues—rose appreciably, but the increase in total bank credit remained moderate.

The narrowly defined money stock (M_1)[2] rose moderately in October, following 2 months of declines. Preliminary calculations based on new benchmark data indicated that the level of the money stock in recent months would be adjusted upward and that monetary growth over the year ending in October had been somewhat faster than the rate of 5.1 per cent suggested by the currently published data.[3] Inflows of time and savings deposits other than large-denomination CD's picked up sharply, and the more broadly defined money stock (M_2)[4] grew at a rapid pace. The outstanding volume of large-denomination CD's declined substantially further as banks continued to reduce the rates paid on such CD's, in response to the further weakening in business loan demand at banks, to the large inflows of consumer-type time deposits, and to the effect on the cost of such funds of the recent increase in marginal reserve requirements against large-denomination CD's. As a result, the bank credit proxy[5] increased relatively little.

Net deposit inflows at nonbank thrift institutions improved somewhat further in October, and the measure of the money stock that includes such deposits (M_3)[6] rose appreciably after having grown at a slow pace over the third quarter. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages declined.

On October 24 the Treasury announced that on October 30 and

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[2]Private demand deposits plus currency in circulation.

[3]The measure of the money stock has been revised annually to incorporate new seasonal adjustment factors and, among other things, benchmark adjustments for deposits at nonmember banks on the basis of data reported for 2 days a year, the last day of June and the last day of December; for member banks, deposits are averages of daily figures. The growth rate cited is calculated on the basis of the daily-average level in October 1973 relative to that in October 1972.

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

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

[6]M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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31 it would auction up to $1.5 billion of 25½-month notes, up to $2.0 billion of 6-year notes, and up to $300 million of 19¾-year, 7½ per cent bonds to refund $3.6 billion of publicly held bonds maturing on November 15; on October 29 the Treasury set coupon rates of 7 per cent for both of the note issues. In the auctions the Treasury sold $1.5 billion of the 25½-month note at an average price to yield 6.91 per cent, $2 billion of the 6-year note at an average price to yield 6.82 per cent, and $300 million of the bond at a price to yield 7.35 per cent to maturity. In addition, the Treasury raised $1.2 billion of new cash by auctioning bills on November 9 and 12; the funds were raised to meet cash needs generated by redemptions of special Treasury securities by some foreign monetary authorities, which in turn resulted from the surplus in the U.S. balance of payments, and also to increase Treasury cash balances because the authority to borrow directly from Federal Reserve Banks had expired on October 31.

Short-term market interest rates in general declined further in the first week after the Committee's meeting on October 16, in large part because of continued market expectations that the weakness of recent months in the behavior of the monetary aggregates would lead to more aggressive System efforts to supply reserves and, consequently, to an easing in money market conditions. Later, however, when the aggregates strengthened and money market conditions remained relatively stable, market expectations changed and interest rates turned up. After the Treasury's early November announcement of the sale of bills to raise new cash, short-term rates—especially those on Treasury bills—rose further to or above their levels of mid-October. Just before this meeting the market rate on 3-month Treasury bills was 7.50 per cent, up from a recent low of 7.02 per cent on October 24 and 7.19 per cent on the day before the October meeting.

In long-term markets interest rates advanced somewhat in the inter-meeting period in association with the rise in short-term rates and with the expansion of demands for funds in the capital markets. The volume of new public offerings of corporate bonds rose sharply in October, and a further increase was in prospect for November. The volume of new State and local government bonds also expanded substantially in October, but the volume appeared likely to fall off in November.

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Soon after the October meeting, available data suggested that in the October–November period the monetary aggregates would grow at rates within acceptable ranges but that reserves available to support private nonbank deposits (RPD's) would grow at a rate below the range that the Committee had specified because an anticipated upturn in the outstanding volume of large-denomination CD's had not developed. Data becoming available later, however, suggested that the monetary aggregates would grow at rates in excess of acceptable ranges. System action to limit such monetary expansion was tempered by the Treasury refunding that was in process and by the unsettled conditions that developed in the Government securities market for a time after the early November announcement of Treasury sales of bills to raise new cash. The Federal funds rate, which had been about 10 per cent at the time of the October meeting, was at or above 10 per cent in the days preceding this meeting. In the 5 weeks ending November 14, member bank borrowings averaged about $1,446 million, down from an average of $1,690 million in the preceding 4 weeks.

The Committee agreed that the economic situation and prospects continued to call for moderate growth in monetary aggregates over the months ahead. A staff analysis suggested that in the near term the demand for money would expand in response to the sizable increase in nominal GNP estimated for the fourth quarter and to the uncertainties generated by the oil shortage. The analysis also suggested that growth of consumer-type time and savings deposits at banks would moderate from the high rates of recent months. While the outstanding volume of large-denomination CD's was expected to expand toward the end of the year in response to a renewal of growth in business loans at banks, it was anticipated that required reserves against such CD's would drop further in the November–December period. Consequently, negative growth in RPD's in that period—at an annual rate within a range of −1 to −3 per cent—was thought likely to be consistent with moderate growth in both the narrowly and the more broadly defined money stock over the months ahead. It was expected that such a change in RPD's would be associated with little change in money market conditions.

The Committee decided that operations should be directed at fostering growth in RPD's during the November–December period

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at an annual rate within a range of −1 to −3 per cent, while avoiding unduly sharp changes in money market conditions. The members also agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments, of the forthcoming Treasury financing, and of deviations in monetary growth from an acceptable range. 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 domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting suggests that growth in economic activity in the fourth quarter is likely to remain at about the moderate rate of the third quarter, but curtailment of oil supplies from abroad has generated considerable uncertainty about subsequent prospects. In October total nonfarm employment expanded substantially further, and the unemployment rate dropped from 4.8 to 4.5 per cent. The advance in wage rates has remained relatively rapid, and unit labor costs have been increasing at a fast pace. Wholesale prices of industrial commodities rose sharply in October, reflecting in part large increases for petroleum products; although farm and food prices declined considerably further, they remained well above the pre-freeze level of early June. In foreign exchange markets, the dollar appreciated against major foreign currencies following announcement in late October of a large surplus in the U.S. merchandise trade balance, and the dollar strengthened markedly further in early November as expectations grew that the developing oil crisis would create particularly severe problems for Western Europe and Japan. In the third quarter and in October, the balance of payments on an official settlements basis was in substantial surplus.
>
> The narrowly defined money stock, which had declined in August and September, rose moderately in October. The more broadly defined money stock expanded sharply as a result of large net inflows at banks of consumer-type time deposits. Net deposit inflows at nonbank thrift institutions improved somewhat further. Bank credit expansion remained moderate in October, reflecting in part a lack of growth in business loans as borrowers shifted to the commercial paper market. The outstanding volume of large-denomination CD's,

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which had begun to decline in late September, fell substantially further. Short-term market interest rates, while fluctuating widely, rose on balance from mid-October to mid-November. Rates on most types of long-term market securities also advanced somewhat.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to abatement of inflationary pressures, a sustainable rate of advance in economic activity, and equilibrium in the country's balance of payments.

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

> Votes for this action: Messrs. Burns, Hayes, Balles, Brimmer, Bucher, Daane, Francis, Holland, Mayo, Mitchell, and Sheehan. Vote against this action: Mr. Morris.

Mr. Morris dissented from this action because he felt that in view of the marked deterioration in the economic outlook that had occurred over the past few weeks, stemming from the energy crisis, a modest move in the direction of a more stimulative monetary policy was appropriate.

Subsequent to the meeting it appeared that in the November–December period growth in the monetary aggregates might exceed acceptable ranges. In view of that behavior, the System, under ordinary circumstances, would have become somewhat more restrictive in its reserve-supplying operations, expecting that money market conditions would tighten somewhat. On November 30, however, the available members concurred in a recommendation by the Chairman that, in light of current uncertainties regarding the economic outlook and the sensitive state of financial market psychology, the System aim to maintain current money market conditions for the time being.

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MEETING HELD ON DECEMBER 17-18, 1973[1]

1. Domestic policy directive

The information reviewed at this meeting suggested that growth in real output of goods and services, which had been at an annual rate of about 3.5 per cent in the third quarter, was slowing appreciably in the current quarter. Staff projections suggested that economic activity would weaken further in the first half of 1974 and that prices would rise appreciably, in part because of curtailment in oil supplies.

In November industrial production expanded slightly. Increases in output in September and October were considerably less than had been reported previously, however, and growth over the 3-month period was well below the pace of advance earlier in the year. The value of new residential construction activity declined further in November. Total nonfarm payroll employment continued to rise, reflecting gains in manufacturing as well as in trade, services, and State and local government. However, the unemployment rate—which had declined to 4.5 per cent in October—moved back up to 4.7 per cent, about the rate that had prevailed since June. Retail sales were unchanged in November, according to the advance report; sales of new automobiles remained at the reduced level of October.

Wholesale prices of industrial commodities continued to rise sharply in November, reflecting extraordinarily large increases in prices of gasoline and other petroleum products and also sizable advances among metals, machinery, textiles, chemicals, and paper products. Wholesale prices of farm and food products declined for the third consecutive month, largely as a result of decreases in prices of cattle, poultry, grains, fats and oils, and cotton. In October the rate of increase in th^ consumer price index accelerated after having slowed in September, as costs of fuels, health services, and homeownership rose appreciably.

Staff projections of growth in real GNP in the first half of 1974 suggested that the shortfall in supplies of petroleum products then

[1]This meeting was held over a 2-day period beginning on the afternoon of Dec. 17, 1973, in order to enable the Committee to consider certain procedural matters without infringing on the time available for its deliberations on current monetary policy.

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envisioned would have its greatest impact on expenditures for automobiles and various other travel-related goods and services; as a result, the slower rate of growth in consumption expenditures that had been developing in the current quarter was likely to persist in the first half of 1974. It was also anticipated that the decline in residential construction would be larger than had appeared likely 4 weeks earlier—because of the adverse effects of the oil shortage on building in the more remote suburban areas and on construction of vacation homes—and that the expansion in business fixed investment would be somewhat less vigorous. State and local government purchases of goods and services were still expected to grow at a substantial rate.

In most other industrial countries, the prospect of a sustained cut in oil supplies threatened even greater economic disruptions than in the United States. From mid-November to mid-December, major foreign currencies depreciated significantly further against the dollar, and a number of foreign monetary authorities continued to intervene in the exchange markets, selling dollars to prevent their currencies from depreciating even more. The U.S. merchandise trade balance, which had been improving since early 1973, was in large surplus in both September and October.

Outstanding business loans at U.S. commercial banks increased in November—following 2 months of little or no change—in association with a rise in interest rates in the commercial paper market relative to effective rates on bank loans. However, total bank credit expansion remained moderate, as growth in most other types of loans slowed further and banks liquidated significant amounts of their holdings of Government and other securities.

The narrowly defined money stock (M_1),[2] after changing little over the third quarter, grew moderately in October and rapidly in November. It appeared that the November rate of growth had been affected by such temporary influences as expansion in precautionary balances held by the public in response to the new economic uncertainties and increases in deposits of foreign commercial and central banks. Inflows of time and savings deposits other than large-denomination CD's—while down from the October level—were still large, and growth in the more broadly defined money

[2]Private demand deposits plus currency in circulation.

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stock (M_2)[3] remained substantial. The outstanding volume of large-denomination CD's declined further in November, on the average, although the volume turned up around the middle of the month as banks raised the rates paid on such CD's in response to the expansion in business loan demand at banks. Treasury deposits also declined, and the bank credit proxy[4] changed little for the second consecutive month. On December 7 the Federal Reserve announced a reduction from 11 to 8 per cent in marginal reserve requirements on large-denomination CD's, effective in the statement week beginning on December 27, against deposits held 2 weeks earlier.

Net deposit inflows at nonbank thrift institutions improved somewhat further in November, and expansion in the measure of the money stock that includes such deposits (M_3),[5] like growth in M_2, remained substantial. Contract interest rates on conventional mortgages and yields in the secondary market for Federally insured mortgages declined for the second consecutive month.

Since the Committee's meeting on November 19–20 most short- and long-term market interest rates had fluctuated in response to changing expectations with regard to monetary policy and to the impact of the fuel shortage on economic activity. Short-term rates in general had fallen following the December 7 announcement of the reduction in marginal reserve requirements against large-denomination CD's, and on balance, most had declined somewhat over the inter-meeting period. Just before this meeting, the market rate on 3-month Treasury bills was 7.47 per cent, compared with an interim high of 7.82 per cent on November 23 and with 7.50 per cent just before the November meeting.

In long-term markets, some rates had increased slightly since the November meeting while others had declined, and on balance, rates had changed little. The volume of new public offerings of corporate bonds—which had risen sharply in October—increased somewhat further in November, and a less-than-seasonal decline

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

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

[5] M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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was in prospect for December. The volume of new State and local government bonds remained high in November, and a seasonal decline appeared likely in the current month.

System open market operations since the meeting in mid-November had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead, while taking account of international and domestic financial market developments. Soon after the November meeting, available data suggested that growth in M_1 and M_2 in the November–December period might exceed acceptable ranges. Although it appeared that growth in reserves available to support private nonbank deposits (RPD's) would fall below the range of -1 to -3 per cent that the Committee had specified, for the most part the shortfall was attributable to a larger-than-expected drop in required reserves against large-denomination CD's.

In view of the behavior of the monetary aggregates, the System, under ordinary circumstances, would have become more restrictive in its reserve-supplying operations, expecting as a result that money market conditions would tighten somewhat. On November 30, however, the available members of the Committee concurred in a recommendation by the Chairman that, in light of current uncertainties regarding the economic outlook and the sensitive state of financial market psychology, current money market conditions be maintained for the time being. In the two statement weeks preceding this meeting, the Federal funds rate averaged about 10⅛ per cent, little changed from the rate prevailing in the days preceding the November meeting. In the 4 weeks ending December 12, member bank borrowings averaged about $1,410 million, close to the average of about $1,446 million in the preceding 5 weeks.

A staff analysis suggested that, if prevailing money market conditions were maintained, the rate of growth of the narrowly defined money stock would be dampened over the months ahead because of the effects on transactions demands for money of the anticipated weakening in economic activity. Some easing of money market and reserve conditions, and the further declines in short-term market rates of interest likely to accompany such easing, would help to sustain moderate growth in M_1 and also—by encouraging expansion in consumer-type time and savings deposits at banks

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and nonbank thrift institutions—in M_2 and M_3. The analysis also suggested that the outstanding volume of large-denomination CD's would grow moderately, reflecting continuation of fairly strong business demands for short-term credit and also the lower net cost of such deposits to banks resulting from the recent reduction in marginal reserve requirements against large-denomination CD's.

The Committee concluded that the economic situation and outlook called for a modest easing of monetary policy. The members decided that for the period until the next meeting somewhat more emphasis should be placed on money market conditions than had been the case in recent months; specifically, they decided that operations should be directed toward achieving some easing in bank reserve and money market conditions, provided that the monetary aggregates did not appear to be growing excessively. Taking into account the staff analysis, the members expected that pursuit of that objective would be consistent with growth in RPD's in the December–January period at an annual rate within a range of 8¼ to 11 per cent. They agreed that, in the conduct of operations, account should be taken of international and domestic financial market developments, and 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 domestic policy directive was issued to the Federal Reserve Bank of New York:

> The information reviewed at this meeting—including recent developments in industrial production, residential construction, and retail sales—suggests that growth in economic activity is slowing in the fourth quarter. A further weakening in activity and an appreciable rise in prices are in prospect because of the curtailment in oil supplies. In November nonfarm payroll employment expanded further, but the unemployment rate, which had dropped in October, rose again to about the level that had prevailed since midyear. Wholesale prices of industrial commodities continued to rise sharply in November, reflecting large additional increases for petroleum products and widespread advances among other commodities; farm and food prices declined further.

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In nearly all industrial countries abroad, concern has grown that a sustained cut in oil supplies will disrupt economic activity. Major foreign currencies have depreciated further against the dollar, and intervention sales of dollars by foreign monetary authorities have continued. The U.S. merchandise trade balance registered a strong surplus in the September–October period.

The narrowly defined money stock, following little net change over the third quarter, has grown at a relatively rapid pace over the past 2 months. Growth in the more broadly defined money stock has also been substantial, as net inflows at banks of consumer-type time deposits have been large. Net deposit inflows at nonbank thrift institutions improved somewhat further. Bank credit expansion remained moderate in November, although business loans increased after 2 months of little or no growth. On December 7 the Federal Reserve announced a reduction from 11 to 8 per cent in marginal reserve requirements on large-denomination CD's. Most short-term market interest rates have declined somewhat on balance in recent weeks, while movements in long-term market rates have been mixed.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to resisting inflationary pressures, cushioning the effects on production and employment growing out of the oil shortage, and maintaining equilibrium in the country's balance of payments.

To implement this policy, while taking account of international and domestic financial market developments, the Committee seeks to achieve some easing in bank reserve and money market conditions, provided that the monetary aggregates do not appear to be growing excessively.

Votes for this action: Messrs. Burns, Balles, Brimmer, Bucher, Daane, Holland, Mayo, Mitchell, Morris, Sheehan, and Kimbrel. Vote against this action: Mr. Hayes.

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

Mr. Hayes dissented from this action because, with the problems of inflation increasing rather than abating and with the monetary aggregates apparently growing more rapidly in 1973 than the Committee had considered desirable, he favored a continuation of the current degree of monetary restraint without noticeable relaxation unless signs of weakening in the economy became more

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apparent. He believed that, while there was not much that monetary policy could do to relieve the economic problems arising from the oil shortage, a premature easing of policy could exacerbate the problems of inflation.

Subsequent to the meeting it appeared that in the December–January period the annual rate of growth in RPD's might be close to the upper limit of the range that had been specified by the Committee and that rates of growth in M_1 and M_2 might exceed acceptable ranges, although a significant part of the growth in the monetary aggregates could be attributed to an unanticipated increase in deposits of foreign commercial banks at U.S. banks. On January 11 the available members—with the exception of Mr. Francis—concurred in a recommendation by the Chairman that, in view of the sensitive state of financial markets and the general economic situation, the System aim to maintain prevailing money market conditions for the time being.

2. Authorization for domestic open market operations

On January 4, 1974, a majority of Committee members 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 authorization for domestic open market operations, effective immediately, for the period ending with the close of business on January 22, 1974.

> Votes for this action: Messrs. Burns, Hayes, Brimmer, Holland, Mayo, Mitchell, Morris, Sheehan, and Clay. Vote against this action: Mr. Francis.
>
> Absent and not voting: Messrs. Balles, Bucher, and Daane. (Mr. Clay voted as alternate for Mr. Balles.)

This action was taken on recommendation of the System Account Manager. The Manager had advised that a substantial volume of open market purchases of securities had been required in the period since the Committee's meeting on December 18, 1973, in order to offset reserve absorption resulting from market factors and that a near-term need to supply reserves was in prospect; he

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had further advised that strength of the dollar in foreign exchange markets suggested that foreign official sales of U.S. Treasury bills might be heavy and that the System should be in a position to acquire some of those bills while offsetting any undesired effects on bank reserves by other means.

Mr. Francis dissented from this action because, in view of his concern over the continuing rapid rate of growth in the monetary aggregates, he preferred that additional reserves necessary to meet requirements over the next few weeks be obtained through member bank borrowings rather than provided through additions to System holdings of securities. Moreover, he believed that foreign official sales of Treasury bills should be absorbed in the market.

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Federal Reserve Operations in Foreign Currencies

Intervention in the exchange markets by the Federal Reserve was on a larger scale in 1973 than in other recent years. In late January and early February when the dollar came under heavy selling pressure in the exchanges, the Federal Reserve sold $292 million equivalent of marks for the System account in order to support the dollar at its lower limit. At the same time the German Federal Bank purchased large amounts of dollars in the Frankfurt market. The Federal Reserve also sold $20 million equivalent of Dutch guilders and—as agent for the U.S. Treasury—sold $47 million equivalent of marks for Treasury account. The System financed its sales of marks by drawing down its mark balances ($167 million) and by drawing on its swap line with the German Federal Bank ($105 million); guilder sales were financed entirely from balances; and sales for the Treasury were made from Treasury balances.

Following a 10 per cent devaluation on February 12, 1973, the U.S. dollar temporarily moved to its new upper limit, and the System repurchased sufficient marks to repay its swap drawings. However, renewed market sales of dollars against currencies of the European Community (EC) soon culminated in the joint float of several European currencies against the dollar.

After a period of relative calm in the exchange markets, the dollar began to weaken further in the late spring against EC currencies until by early July it was depreciating rapidly in disorderly markets. On July 10 the System announced an increase in the swap network from $11.7 billion to nearly $18 billion, and from July 10 through the end of the month it sold $273 million equivalent of foreign currencies—$220 million of German marks, $47 million of French francs, and $6 million of Belgian francs—all financed by swap drawings on the foreign central banks of issue. By late July the dollar had stabilized against EC currencies; it recovered strongly during early August, thereby enabling the System to repurchase sufficient amounts of foreign currencies to repay its July drawings.

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The exchange markets became unsettled following the surprise revaluation of the Dutch guilder on September 15. As a result the System sold substantial amounts of foreign currencies in the latter half of September and smaller amounts in mid-October. In these 2 months total sales of foreign currencies amounted to $189 million equivalent, of which $185 million was financed by Federal Reserve swap drawings. By the end of October the System had purchased sufficient foreign currency balances to repay those drawings.

During the course of the year the System drew a total of $617 million equivalent on the swap lines to finance exchange market sales of foreign currencies. All of these drawings were repaid within a month or two. In addition, the System acquired through market purchases sufficient foreign currencies to repay $158 million equivalent of pre-August 15, 1971, swap drawings, bringing the outstanding total of System swap indebtedness at the year-end to $1,427 million equivalent. There were no drawings by foreign central banks during the year.

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Voluntary Foreign Credit Restraint Program

During 1973 the level of restraint asked of U.S. banks and U.S. nonbank financial institutions under the Voluntary Foreign Credit Restraint (VFCR) guidelines remained unchanged. On December 26, 1973, however, it was announced that the level of restraint would be substantially relaxed, effective January 1, 1974, as part of the general relaxation of the U.S. capital controls programs.

The guidelines were amended only once during the year. That amendment—July 19, 1973—formalized the method of restraint that had been applied to U.S. agencies and branches of foreign banks since the last substantial revision of the guidelines in late 1971. According to that amendment, agencies and branches could increase their claims on non-U.S. residents to the extent that they increased the funds they borrowed from their own parent banks and from other non-U.S. sources. June 30, 1973, was set as the base for calculating changes in

FOREIGN ASSETS OF U.S. BANKS

Item	1972, Dec. 31	1973			
		Mar. 31	June 30	Sept. 30	Dec. 31
Number of reporting banks	222	227	226	229	229
	Millions of dollars				
Aggregate ceiling	**10,276**	**10,328**	**10,316**	**10,351**	**10,367**
Assets held for own account subject to restraint	9,189	9,630	9,425	9,186	9,382
Aggregate leeway	1,087	698	890	1,165	985
Assets exempted from VFCR	**5,339**	**5,908**	**6,962**	**6,559**	**7,637**
Canadian assets	927	855	807	713	1,134
Export credits other than to residents of Canada	4,213	4,843	5,930	5,585	6,252
Other	199	210	225	261	251
TOTAL assets held for own account	**14,529**	**15,538**	**16,387**	**15,745**	**17,019**

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foreign assets of types subject to restraint and changes in offsetting foreign liabilities. The amendment did not, and was not intended to, change the degree of restraint that U.S. agencies and branches of foreign banks were asked to observe.

Aggregate VFCR ceilings of commercial banks participating in the program reached a level of $10.4 billion at the end of 1973. This was approximately $100 million above the end-of-1972 level, an increase attributable to adoption of guideline ceilings by banks that were expanding their foreign activities. The degree of ceiling utilization remained steady throughout the year. Assets subject to restraint rose by only $193 million during the year, and the aggregate leeway was $102 million lower on December 31, 1973, than it had been a year earlier.

However, during periods of exceptional activity in international money markets, U.S. banks experienced substantial pressures on their lending restraints. Most notably in February and in May, unan-

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

Item	1972, Dec. 31	1973					
		July 31	Aug. 31	Sept. 30	Oct. 31	Nov. 30	Dec. 31
Number of reporting institutions	62	67	65	68	69	71	72
	Millions of dollars						
Assets held for own account subject to restraint	**2,994**	**4,256**	**4,489**	**4,587**	**4,991**	**5,179**	**5,839**
Foreign liabilities	n.a.	9,134	9,332	9,549	10,193	10,442	10,812
Net foreign position	n.a.	−4,878	−4,843	−4,962	−5,202	−5,264	−4,973
Base net foreign position on 6/30/73	n.a.	−4,623	−4,550	−4,551	−4,551	−4,605	−4,605
Aggregate leeway	**n.a.**	**255**	**293**	**410**	**650**	**659**	**368**
Assets exempt from VFCR	**1,819**	**2,743**	**2,665**	**2,706**	**2,639**	**2,724**	**2,688**
Canadian assets	409	543	473	440	464	432	385
Export credits other than to residents of Canada	1,410	2,200	2,192	2,266	2,175	2,292	2,303
TOTAL assets held for own account	**4,812**	**7,000**	**7,155**	**7,293**	**7,630**	**7,902**	**8,527**

n.a. Not available.

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ticipated drawings on lines of credit established by foreign customers caused many banks to go temporarily over their VFCR ceilings. In most cases the banks were able to correct their positions rapidly.

U.S. banks were active in the field of export financing, which is exempt from restraint. In 1973, export credits to others than residents of Canada increased by $2 billion, an increase of nearly 50 per cent.

U.S. agencies and branches of foreign banks started reporting in July under the system described earlier for netting increased foreign liabilities against increased foreign assets. For the year, their holdings of assets of the types subject to restraint nearly doubled. In the period July–December, the increase in their foreign liabilities outstripped the increase of assets subject to restraint by $368 million. This figure represented leeway available to the agencies and branches for further lending.

Like U.S. banks, the agencies and branches vigorously expanded their export financing activities to others than residents of Canada. However, their holdings of such credits increased even faster than those of U.S. banks—that is, by 63 per cent.

Foreign asset holdings of U.S. nonbank financial institutions changed little in 1973. As of the end of the year, their holdings of foreign assets subject to restraint stood at $1,149 million, $20 million less than at the end of 1972. With aggregate ceilings remaining unchanged, the institutions had an aggregate leeway of $800 million as of the end of 1973.

The holdings of assets exempt from restraint increased by more than $800 million. Here too, export credits showed a large relative increase—63 per cent. However, at the end of the year total holdings of export credits of the VFCR-reporting nonbank financial institutions were only $158 million.

On December 26, 1973, the Board announced several amendments to the guidelines. The amendments represented a relaxation in restraint effective January 1, 1974, and were announced simultaneously with the reduction in the rate of the Interest Equalization Tax and with the relaxation of the Foreign Direct Investment Program, which are administered by the Treasury Department and the Department of Commerce, respectively.

For the VFCR-participating financial institutions, one element of

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

Item	1972, Dec. 31	1973			
		Mar. 31	June 30	Sept. 30	Dec. 31p
Number of reporting institutions	317	321	322	317	327
	Millions of dollars				
Assets subject to restraint	**1,169**	**1,145**	**1,164**	**1,150**	**1,149**
Deposits and money market instruments	69	69	87	92	99
Short- and intermediate-term credits	141	141	142	145	147
Long-term investments	961	935	935	913	903
Ceiling	1,732	1,728	1,732	1,703	1,722
Foreign borowing offset	159	187	200	206	233
Aggregate leeway	**721**	**770**	**768**	**759**	**806**
Assets exempted from VFCR	**15,572**	**15,861**	**16,033**	**16,223**	**16,414**
Export credits	97	131	139	140	158
Investments in Canada, other than export credits	11,864	12,020	12,118	12,177	12,226
Direct obligations of international institutions	1,232	1,219	1,218	1,193	1,174
Long-term investments in developing countries other than export credits	1,312	1,328	1,310	1,370	1,405
Other nonexport investments	1,066	1,164	1,248	1,344	1,451
TOTAL assets held for own account	**16,741**	**17,006**	**17,197**	**17,372**	**17,563**

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relaxation was a rise in the minimum ceiling applicable to foreign assets of the types subject to restraint. These minimums were raised from $500,000 to $10 million for banks; from $1 million to $10 million for U.S. agencies and branches of foreign banks; and from $500,000 to $2 million for U.S. nonbank financial institutions.

For institutions with ceilings higher than the new minimum ceilings, the ceilings were raised by 4 per cent for U.S. banks and for U.S. agencies and branches of foreign banks, and by 5 per cent for U.S. nonbank financial institutions.

For all financial institutions participating in the VFCR program, subsidiary restraints regarding loans to residents of developed countries of continental Western Europe were abolished.

On January 29, 1974, the Board announced termination of the VFCR program, effective immediately. This action was coordinated with the simultaneous lifting of the capital outflow restraint programs administered by the Treasury and Commerce Departments.

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Legislation Enacted

Purchase of Government obligations by Federal Reserve Banks

An Act of Congress approved August 14, 1973 (Public Law 93–93), extended through October 31, 1973, the authority of the Federal Reserve Banks under Section 14(b) of the Federal Reserve Act to purchase and sell direct or fully guaranteed obligations of the United States directly from or to the United States.

Interest on deposits

By Joint Resolution approved July 6, 1973 (Public Law 93–63), the Congress extended until August 1, 1973, the flexible authority of the Board of Governors, the Federal Deposit Insurance Corporation (FDIC), and the Federal Home Loan Bank Board (FHLBB) to regulate the maximum rates of interest or dividends payable by insured banks and by savings and loan associations on deposit or share accounts. By an Act approved August 16, 1973 (Public Law 93–100), the Congress further extended this authority until December 31, 1974, and broadened it to include rates paid on deposits by certain noninsured banks. By Joint Resolution approved October 15, 1973 (Public Law 93–123), the Congress directed the Board of Governors, the Secretary of the Treasury, the FDIC, and the FHLBB to limit the rates of interest or dividends that may be paid on all time deposits of less than $100,000, thereby ending the experiment with 4-year accounts that were free of governmentally imposed interest and dividend ceilings.

Regulating "NOW" accounts

An Act of Congress approved August 16, 1973 (Public Law 93–100), permits the offering—subject to regulation—of interest- or dividend-bearing accounts with negotiable-order-of-withdrawal features (so-called "NOW" accounts) by depositary institutions in Massachusetts and New Hampshire. On December 4, 1973, the Board issued an amendment to its Regulation Q governing these accounts (see page 110 of this REPORT).

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Investment in State housing corporations

By an Act approved August 16, 1973 (Public Law 93–100), the Congress authorized national banks and Federal savings and loan associations to invest in State housing corporations and directed the Board of Governors, the Federal Savings and Loan Insurance Corporation (FSLIC), and the FDIC to regulate such investment by the financial institutions that they supervise.

Gold Reserve Act of 1934

Congress amended the Gold Reserve Act of 1934 by an Act approved September 21, 1973 (Public Law 93–110), which permits private citizens to hold gold when the President finds that the elimination of regulations on private ownership of gold will not adversely affect the U.S. international monetary position.

Par Value Modification Act

By an Act of Congress approved September 21, 1973 (Public Law 93–110), the Par Value Modification Act was amended to establish a new par value of the dollar at 0.828948 Special Drawing Right or the equivalent in terms of gold of $42\frac{2}{9}$ per fine troy ounce of gold.

Foreign currency reports

To assist in the collection of data on capital flows, by an Act of Congress approved September 21, 1973 (Public Law 93–110), the Secretary of the Treasury was directed to supplement regulations requiring the submission of reports on foreign currency transactions.

Appointment of Alternate Governors of the IMF and IBRD

By an Act of Congress approved August 15, 1973 (Public 93–94), the Bretton Woods Agreements Act was amended to authorize the President to appoint an alternate for the Governor of the International Monetary Fund (IMF) and an alternate for the Governor of the International Bank for Reconstruction and Development (IBRD). The President appointed Arthur F. Burns to be U.S. Alternate Governor of the IMF for a term of 5 years, and on September 19, 1973, the Senate confirmed this nomination.

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State taxation of Federally insured financial institutions

By an Act of Congress approved August 16, 1973 (Public Law 93–100), the Congress has prohibited States and political subdivisions from imposing—until January 1, 1976—any tax that is measured by income or receipts or imposing any other "doing business" tax on an out-of-State financial institution that is a member of a Federal home loan bank or the deposits or accounts of which are insured by the FSLIC or are covered under the Federal Deposit Insurance Act. The Act directed the Advisory Commission on Intergovernmental Relations to study the application of State "doing business" taxes to these institutions and to make recommendations to the Congress by December 31, 1974.

Loans in flood-prone areas

By an Act approved December 31, 1973 (Public Law 93–234), the Congress enacted the Flood Disaster Protection Act of 1973, which required the Board of Governors and other Federal authorities that regulate financial institutions to direct their supervised or insured institutions not to lend on improved real estate, or a mobile home, in an identified flood-hazard area unless the property is covered by appropriate flood insurance. On February 6, 1974, the Board issued an amendment to its Regulation H to implement the Act with respect to State member banks.

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Legislative Recommendations

Monetary policy—Reserve requirements

On January 25, 1974, the Board of Governors sent to the Congress draft legislation designed to implement the Board's recommendation to extend reserve requirements set by the Federal Reserve to deposits in nonmember financial institutions that serve a checking account function.

The Board's proposal has two over-all objectives. First, to achieve better control over the flow of money and credit in the economy; second, to provide a more equitable sharing of the reserve requirements burden among financial institutions that offer similar deposit services. The basic principle underlying the second objective is that reserve requirements in the form of an account with a Federal Reserve Bank should apply to all deposits that effectively serve as a part of the public's money balances, regardless of the type of institution that holds those balances.

The Board included in its draft legislation several provisions intended to preserve the present structural balance inherent in the dual banking system. Specifically, there is no requirement that nonmember institutions must join the Federal Reserve System.

The legislation effectively exempts more than 3,300 small nonmember banks from carrying reserve requirements by means of a provision that no required reserves need be held by nonmember institutions against the first $2 million of their net demand deposits or NOW accounts. (NOW accounts may be offered only in Massachusetts and New Hampshire.)

An existing provision of law and Federal Reserve regulations state that currency and coin held by member banks may be counted toward their Federal Reserve reserve requirements. Assuming prevailing reserve requirements of the Federal Reserve are continued on demand deposits, the excess of required reserves over the vault cash now held by nonmember banks aggregates about $2.3 billion. The presence of this vault cash, combined with the exemption of the first $2 million of net demand deposits mentioned above, means that only about 38 per cent of the present nonmember banks would

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be subject to reserve requirements over and above their present holdings of currency and coin.

Also, the legislation provides a 4-year transition period, during which reserves would be gradually phased in by the institutions that would be required to establish reserve accounts with the Federal Reserve.

Nonmember institutions and their communities stand to benefit from a provision in the Board's draft legislation that permits Federal Reserve credit to be made available, under rules to be established, to institutions required to maintain reserves with the Federal Reserve. At present, credit may be extended to nonmember institutions only in unusual circumstances and under highly restrictive conditions imposed by law.

Viewed in all its aspects, the Board's proposal balances the necessity of improving control over money and credit, and the desirability of fostering equity among financial institutions, against the equally important goal of retaining the present supervisory structure of financial institutions.

Regulation of foreign banks

The Board believes that legislation is desirable to clarify the status of foreign banks in the United States and to assure a more uniform regulatory treatment of their activities in this country. The Board further believes that any such legislation should be based on the principle of nondiscrimination. That is to say, foreign and domestic institutions should have the same privileges and be subject to the same rules, so that comparable institutions could compete on equitable terms in our national market. Implementation of this principle in the United States would not only offer public benefits in the domestic context; it would also set a standard for other countries on the treatment we would expect to be afforded to U.S. banks operating within their territories.

The Board intends to recommend legislation that will regulate foreign banks conducting banking operations in the United States. The broad objectives of the bill are to achieve equality of treatment between domestic and foreign banks, to provide a Federal presence in the licensing and supervision of foreign banks, and to bring for-

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eign banks' operations in the United States within the purview of Federal Reserve regulations.

Consumer affairs and public service

Truth in Lending. As stated in its Annual Report on Truth in Lending, sent to Congress on January 3, 1974, the Board recommends certain legislative changes in that area, particularly legislation to require suitable disclosures in connection with consumer leases. The Board believes that consumer leasing programs need to be accompanied by adequate cost disclosures so that the consumer may intelligently shop this expanding market.

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.

To an extent this was accomplished by enactment of Public Law 93–100, which authorized investment in State housing corporations established for the limited purpose of providing housing and incidental services, particularly for families of low or moderate income. The Board believes, however, that this authorization should be expanded to cover investments in community corporations that could engage more broadly in community welfare, regardless of whether established by private or governmental authorities. To assure that such investments do not have an adverse effect on the soundness of the Nation's banks, investments would be regulated by the Comptroller of the Currency, the Board of Governors, and the Federal Deposit Insurance Corporation with regard to banks under their respective jurisdictions, as is the case under Public Law 93–100.

Real estate loans by national banks. The Board believes it is desirable to provide national banks with sufficient flexibility in making real estate loans to meet the changing needs of borrowers for both residential and nonresidential mortgage credit. At present,

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the mortgage investment powers of national banks are contained in Section 24 of the Federal Reserve Act. Through the years this section has been amended numerous times, in a fragmentary manner, to meet changing conditions. In the field of real estate loans, there have been so many developments in the past few decades that the existing Section 24 has become obsolete in some respects.

The Board believes that the present Section 24 should be deleted from the Federal Reserve Act and that, instead, national banks should be permitted to make loans on the security of real estate to the extent authorized by regulations prescribed by the Comptroller of the Currency. This approach would provide the supervisory authority primarily responsible for the safety and soundness of national banks with greater flexibility, while at the same time allowing for protection of the public interest. This approach also recognizes that real estate loans to one class of borrowers, such as home buyers, may require a different set of rules than those applied to more sophisticated borrowers, such as homebuilders.

Proposals relating to the regulation of bank 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 nonbank subsidiary thereof under the Act.

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

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Bank Merger Act, under which (1) comments by a bank supervisor on a proposed takeover 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. Intercorporate dealings. Section 23A of the Federal Reserve Act (12 U.S.C. 371c) limits the 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.

e. Limitations on reducing, lending on, or paying out a bank holding company's capital. Under the Bank Holding Company Act, the Board is required to take into consideration "the financial and managerial resources and future prospects of the company" in connection with the formation of bank holding companies and their acquisition of banks. Such analysis includes an assessment of the capital position of the holding company. An inquiry with respect to similar factors is made in connection with applications to acquire or retain nonbank subsidiaries. Although the capital of the holding

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company may be deemed sufficient at the time of an approval by the Board, there is no assurance that the capital position will not change at a later date to the detriment of the entire holding company system. The Board believes there is a need for some limitation on bank holding companies so as to prevent the undermining of their capital position.

Supervisory and other recommendations

Interlocking 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."

Loans to executive officers. Loans to executive officers of member banks are subject to restrictions under Section 22(g) of the Federal Reserve Act. The concern over possible self-dealing and conflict of interest that may be harmful to the banking system, which is the basis for these restrictions, is also applicable to loans by both member and nonmember bank subsidiaries of bank holding companies to executive officers of both holding companies and other bank and nonbank subsidiaries of holding companies, and the Board recommends an appropriate modification of these restrictions. At the same time the Board believes that the limitations under Section 22(g) are unnecessarily restrictive and could be relaxed without weakening the protection sought by the provision.

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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 also 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.

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 institutions 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

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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 estimates that $80 million will be needed over the next 5 years to fund "building proper" costs for branch bank building programs. Analysis of the System's building needs is continuing to ensure the maximum public benefits for each dollar spent. Accordingly, the Board recommends an increase of $80 million in the amount authorized for branch bank buildings.

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Litigation

Bank holding companies—Antitrust actions

During 1973 the Federal courts announced decisions in two cases brought by the U.S. Department of Justice to prevent the consummation of bank acquisitions by registered bank holding companies. A third case was dismissed by the court at the request of the Government. Another antitrust case filed by the Department of Justice is pending in a Federal court. In two other cases the time to appeal court decisions rendered in 1972 expired. In each case the complaint alleged that the effect of the proposed acquisition, which previously had been approved by the Board, 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 follow:

United States v. *First National Bancorporation, Inc., et al.,* filed July 1970, U.S.D.C. for the District of Colorado. This case was 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 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 a direct appeal to the U.S. Supreme Court which that Court accepted for review. The district court decision was affirmed *per curiam* by an equally divided Supreme Court, February 28, 1973.

United States v. *First National Bancorporation, Inc., et al.,* filed December 1970, U.S.D.C. for the District of Colorado. The proceedings in this case (relating to Security State Bank of Sterling, Colorado) were suspended pending the outcome of the Greeley case referred to in the preceding paragraph, and the suit was dismissed after the Supreme Court decision in that case.

United States v. *United Virginia Bankshares Incorporated, et al.,* filed February 1970, U.S.D.C. for the 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

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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 Prince William County market (Memorandum Order September 1972). The time to file an appeal expired during 1973.

United States v. *Trans Texas Bancorporation, Inc., et al.* This case was filed in March 1972, U.S.D.C. for the 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 had 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). In May 1973 the Supreme Court accepted review of the case and, in a *per curiam* opinion, affirmed the ruling of the district court.

United States v. *County National Bancorporation.* This case was filed in April 1972, U.S.D.C. for the 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 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 expired during 1973.

United States v. *Michigan National Corporation, et al.* This antitrust action was filed on November 14, 1973, in the U.S.D.C. for the Eastern District of Michigan, to prevent consummation by Michigan National Corporation, Bloomfield Hills, Michigan, of the acquisition of four banks in East Lansing, Saginaw, Grand Rapids, and Wyandotte, Michigan. The Government alleges that the acquisitions would not only eliminate existing competition and the potential for increased competition but also increase concentration in commercial banking in the Saginaw, Grand Rapids, and Lansing markets.

Bank holding companies—Review of Board actions

Nineteen civil actions raising questions under the Bank Holding Company Act were filed during 1973 and one early in 1974. Four

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of these cases were dismissed by the courts at the request of petitioners, and no decisions were rendered in the others.

Five cases that had been filed in 1972 were decided during 1973. In one of these cases the Board's Order was set aside; in two the courts remanded the cases to the Board for further findings (one at the request of the Board); and in the remaining two cases they acted favorably to the Board.

One case filed in 1971 was suspended pending Board action on proposed regulatory amendments. The caption of each case and a brief description of its status follow:

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.* v. *Board of Governors,* filed October 1972, the U.S.C.A. for the District of Columbia dismissed petitioner's request for review of a Board interpretation (Federal Reserve *Bulletin* for September 1972, page 800) relating to the types of insurance agency activities considered by the Board to be closely related to banking. The court based its dismissal on the grounds that the challenged statement appeared to be an interpretation rather than a formal regulation; that as an interpretation there was serious doubt as to its reviewability by a court under the Bank Holding Company Act; and that the petition for review was premature since no specific application was before the Board.

In *National Association of Insurance Agents, Inc.* v. *Board of Governors*, filed September 1973, U.S.C.A. for the District of Columbia Circuit, petitioner requested the court to review the Board's Order, dated March 28, 1973, permitting U. B. Financial

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Corporation, Phoenix, Arizona, to retain voting shares of H. S. Pickrell Company, Phoenix, Arizona. The petition for judicial review, on agreement of the parties, was dismissed by the court in November 1973.

In *BankAmerica Corporation* v. *Board of Governors,* filed July 1972, the U.S.C.A. for the Ninth Circuit, in a decision filed January 1974, affirmed a Board Order, dated June 29, 1972, that denied an application of BankAmerica Corporation, San Francisco, California, to engage in certain personal property leasing activities. The court rejected petitioner's arguments that the Board had improperly denied petitioner a hearing, that the Board's Order had failed to include sufficient findings of fact, and that in weighing the application the Board had used an improper standard not authorized by the Bank Holding Company Act.

In *Gravois Bank, et al.* v. *Board of Governors,* filed July 1972, the U.S.C.A. for the Eighth Circuit, in a decision filed April 27, 1973, remanded the case to the Board for further consideration (478 F. 2d. 546, Eighth Cir. 1973). The court held that the Federal Reserve Bank of St. Louis, acting pursuant to delegated authority in approving the application of Manchester Financial Corporation, St. Louis, Missouri, to acquire the National Bank of Affton, Affton, Missouri, a proposed new bank, had failed to consider whether the acquisition would violate Missouri's law prohibiting branch banking. The matter is pending before the Board.

In *Western Bancshares, Inc.* v. *Board of Governors,* filed September 1972, U.S.C.A. for the Tenth Circuit, petitioner requested the court to review and set aside an Order of the Board (Federal Reserve *Bulletin* for September 1972, page 843) denying applications for retention of a bank and continuation of the activities of a general insurance agency. In an opinion filed June 21, 1973 (480 F 2d. 749), the court held that the Board lacked statutory authority to deny an application under Section 3 of the Bank Holding Company Act solely on the ground that an equal offer had not been made to all shareholders. The court set aside the Board's Order.

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 requested judicial review of a Board Order (Federal Reserve *Bulletin* for October 1972, page 923) approving the applica-

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tion of Boatmen's Bancshares, Inc., St. Louis, Missouri, to acquire Boatmen's National Bank of North St. Louis County, a proposed new bank. In July 1973, on motion of the Board, the court remanded this case for further consideration. In December 1973 the Board issued an Order approving the acquisition (*Federal Register* for January 4, 1974, page 1120).

In *United Tennessee Bancshares Corporation* v. *Board of Governors,* filed July 1973, U.S.C.A. for the Sixth Circuit, petitioner requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* for July 1973, page 530) denying petitioner's application to merge with American National Corporation, Chattanooga, Tennessee. Upon motion of petitioner, the court dismissed the case in November 1973.

In *First Oklahoma Bancorporation, Inc.* v. *Board of Governors,* filed February 1973, U.S.C.A. for the Tenth Circuit, petitioner requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* for March 1973, page 217) concluding that petitioner was not eligible for "grandfather" privileges under Section 4(a)(2) of the Bank Holding Company Act. In May 1973 the court, on motion of petitioner, dismissed the petition for review.

In *Cosmopolitan State Bank, et al.* v. *Board of Governors,* filed March 1973, U.S.C.A. for the District of Columbia Circuit, petitioners requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* for March 1973, page 194) permitting Northwest Bancorporation, Minneapolis, Minnesota, to acquire Farmers and Merchants State Bank of Stillwater, Stillwater, Minnesota. In May 1973 the court, on motion of petitioners, dismissed the petition for judicial review.

In *NCNB Corporation* v. *Board of Governors,* filed April 1973, U.S.C.A. for the District of Columbia Circuit, petitioner has requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* for April 1973, page 305) permitting petitioner to engage in a general trust business in South Carolina to the extent permitted by State law. The court has granted petitioner's motion to hold this proceeding in abeyance pending the outcome of a suit filed in U.S.D.C. for the District of South Carolina, challenging the constitutionality of the State statute restricting trust company activities of out-of-State banking organizations.

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In *Bankers Trust New York Corporation* v. *Board of Governors,* filed May 1973, U.S.C.A. for the Second Circuit, petitioner has requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* for May 1973, page 364) denying petitioner's application to engage in investment advisory activities through a newly formed subsidiary corporation at Palm Beach, Florida. The First National Bank in Palm Beach and The Florida Bankers Association have been granted leave to intervene. In October 1973 the court granted petitioner's motion to hold the proceedings in abeyance until 40 days after the judgment of the U.S.D.C. for the Northern District of Florida in a suit challenging the constitutionality of the Florida statute that prohibits out-of-State banking organizations from performing investment advisory activities in Florida, the statute on which the Board based its denial of petitioner's application.

In *Lake County National Bank* v. *Board of Governors,* filed August 1973, U.S.C.A. for the District of Columbia Circuit, petitioner has challenged four Board Orders, dated July 20, 1973 (*Federal Register* for July 30, 1973, page 20293) approving several related applications that effectuate the corporate reorganization of The Cleveland Trust Company, Cleveland, Ohio.

In *Lorain County Savings and Trust Co.* v. *Board of Governors,* filed August 1973, U.S.C.A. for the District of Columbia Circuit, petitioner challenged the same Board Orders described above in *Lake County National Bank* v. *Board of Governors.* On February 4, 1974, the court granted petitioner's motion to hold the proceedings in abeyance until 40 days after the judgment of the Supreme Court of Ohio in a suit challenging, as a violation of State branching laws, issuance of the State banking charters necessary for the reorganization. The court has also ordered the petitioners in this suit and those in the *Lake County National Bank* case to show cause why the two appeals should not be consolidated.

In *East Lansing State Bank* v. *Board of Governors,* filed December 1973, U.S.C.A. for the Sixth Circuit, petitioner has asked the court to review and set aside a Board Order (Federal Reserve *Bulletin* for November 1973, page 819) permitting Michigan National Corporation to acquire four banks, including First National Bank of East Lansing, East Lansing, Michigan. The court has granted a stay of proceedings pending the outcome of a suit filed by the

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Department of Justice challenging these acquisitions as violations of the antitrust laws.

In *Anthony R. Martin-Trigona* v. *Board of Governors*, filed August 1973, U.S.C.A. for the District of Columbia Circuit, petitioner requested the court to review and set aside the Board action denying petitioner's request for a hearing in the matter of the application of BankAmerica Corporation, San Francisco, California, to acquire GAC Finance, Inc., Allentown, Pennsylvania. Petitioner also requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* for September 1973, page 687) approving this acquisition. BankAmerica Corporation has been granted leave to intervene.

In *Anthony R. Martin-Trigona* v. *BankAmerica Corporation, et al.*, filed August 1973, U.S.D.C. for the District of Columbia, petitioner has brought an action challenging the acquisition of GAC Finance, Inc., Allentown, Pennsylvania, by BankAmerica Corporation, San Francisco, and seeking to compel the Department of Justice to bring suit under the antitrust laws of the United States to block this acquisition, which had been approved by the Federal Reserve Board of Governors.

In *Patagonia Corporation* v. *Board of Governors*, filed August 1973, U.S.C.A. for the Ninth Circuit, petitioner has requested the court to review and set aside a Board Order (Federal Reserve *Bulletin* for July 1973, page 539) concluding that petitioner is not entitled to indefinite grandfather privileges under Section 4(a)(2) of the Bank Holding Company Act with respect to certain of its nonbanking activities.

In *Cameron Financial Corporation* v. *Board of Governors*, filed August 1973, U.S.C.A. for the Fourth Circuit, petitioner has requested the court to review and set aside a Board Order, dated July 20, 1973, concluding that petitioner is not entitled to indefinite grandfather privileges under Section 4(a)(2) of the Bank Holding Company Act with respect to its subsidiary, Courier Express Corporation.

In *Iowa Independent Bankers* v. *Board of Governors*, filed September 1973, U.S.C.A. for the District of Columbia Circuit, petitioner has requested the court to review and set aside a Board Order (*Federal Register* for August 9, 1973, page 21530) permitting North-

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west Bancorporation, Minneapolis, Minnesota, to acquire Bettendorf Bank and Trust, Bettendorf, Iowa, and Security State Bank, Keokuk, Iowa, on the ground that the Iowa statute permitting out-of-State holding companies to acquire Iowa banks is unconstitutional. In September 1973, the court granted Northwest Bancorporation leave to intervene.

In *Independent Bankers Association of Georgia* v. *Board of Governors,* filed September 1973, U.S.C.A. for the District of Columbia Circuit, petitioner has requested the court to review and set aside a Board Order, dated August 31, 1973, permitting Citizens and Southern Holding Company, Atlanta, Georgia, to engage *de novo* in mortgage banking activities. Citizens and Southern Holding Company has been granted leave to intervene.

In *American Bancorporation, et al.* v. *Board of Governors,* filed September 1973, U.S.C.A. for the Eighth Circuit, and in *Springsted, Inc., et al.* v. *Board of Governors,* filed September 1973, U.S.C.A. for the Eighth Circuit, petitioners have asked the court to review and set aside the Board Order (Federal Reserve *Bulletin* for September 1973, page 701) approving the acquisition by Northwest Bancorporation, Minneapolis, Minnesota, of T. G. Evenson & Associates, Inc., Minneapolis, Minnesota. In October 1973 the court issued orders consolidating the two separate actions and granting Northwest Bancorporation leave to intervene.

In *Independent Bankers Association of America, Inc.* v. *Board of Governors,* filed December 1973, U.S.C.A. for the District of Columbia Circuit, and in *National Courier Association, et al.* v. *Board of Governors*, filed December 1973, U.S.C.A. for the District of Columbia Circuit, petitioners, in separate suits, are seeking judicial review of a Board Order, dated November 15, 1973, determining that certain courier service activities are so closely related to banking or managing or controlling banks as to be a proper incident thereto. (The Board's amendment of its Regulation Y appears in the Federal Reserve *Bulletin* for December 1973, page 892.)

In *Memphis Bank and Trust Company* v. *Board of Governors,* filed January 1974, U.S.C.A. for the District of Columbia Circuit, petitioner has requested the court to review and set aside a Board Order, dated December 21, 1973, granting the application of First Amtenn Corporation, Nashville, Tennessee, to acquire City

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National Bank of Memphis, Memphis, Tennessee, a proposed new bank (*Federal Register* for January 4, 1974, page 1123).

Other litigation involving challenges to Board procedures and regulations

In ***Community Bank, et al.*** v. ***Board of Governors,*** filed September 1972, U.S.C.A. for the Ninth Circuit, and in ***Independent Bankers Association of America, et al.*** v. ***Board of Governors,*** filed September 1972, U.S.C.A. for the District of Columbia Circuit, plaintiffs have appealed district court decisions granting the Board's motions for summary judgment and dismissing these separate actions brought to challenge certain amendments to the Board's Regulation J that require payment of cash items on the day of presentment.

In ***Consumers Union of the United States, Inc., et al.*** v. ***Board of Governors,*** filed September 1973, U.S.D.C. for the District of Columbia, plaintiffs have brought suit under the Freedom of Information Act to compel the Board of Governors to release certain data furnished by individual banks that are used to compile the Board's composite G-10 statistical release.

In ***Donald K. Gearhart, et al.*** v. ***Board of Governors, et al.,*** filed September 1973, U.S.D.C. for the Southern District of Ohio, plaintiffs have brought a class action on behalf of purchasers of bank certificates of deposits (CD's) in face amounts of less than $100,000 and savings account depositors at certain Cincinnati banks named as defendants, alleging that the Board, through its Regulation Q, accords preferential treatment to purchasers of CD's in face amounts of $100,000 or more by permitting banks to pay higher rates of interest on this category of deposits.

In ***Leslie P. Spelman, et al.*** v. ***Bank of America National Trust and Savings Association, et al.,*** filed October 1973, U.S.D.C. for the Southern District of California, plaintiffs have filed a class action on behalf of all persons who deposit their taxes with member banks of the Federal Reserve System that are qualified Federal tax depositories, alleging that these member banks are unjustly enriched because they have the use of taxpayers' money interest free.

In ***Universal Air Travel Plan, et al.*** v. ***Board of Governors, et al.,*** filed December 1972, U.S.D.C. for the District of Columbia,

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plaintiffs have brought suit challenging an amendment to the Board's Truth-in-Lending Regulation Z which clarifies that *all* credit cards—whether issued or used for personal, family, household, agricultural, business, or commercial purposes—are covered by the maximum liability limit of $50 for unauthorized use. (For the Board's amendment, see the Federal Reserve *Bulletin* for November 1972, page 979.) By order issued September 1973, the Court has stayed action on cross motions for summary judgment filed by the parties, pending the decision of the U.S.C.A. for the District of Columbia Circuit in a separate case involving similar issues.

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Bank Supervision and Regulation by the Federal Reserve System

Bank holding companies. During 1973, 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)	57	1	89	......
3(a)(3)	288	18	91	......
3(a)(5)	9	1	......	......
4(c)(8)	332	143	......	495
4(c)(12)	......	......	......	52
4(d)	3	......	......	......

In addition to the above, 20 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 and the public, and the orders, some accompanied by statements, are published in the Federal Reserve *Bulletin.* Actions by the Federal Reserve Banks also are reported to the press and the public and appear in the Federal Reserve *Bulletin* and 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 1972 were obtained from all registered bank holding companies pursuant to the provisions of Section 5(c) of the Act. At the end of 1973, there were 1,677 bank holding companies in operation.

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In processing the increasing number of applications filed under the Act, the Board has emphasized public benefits, increased convenience and need, and improved financial services to the public. Some cases decided by the Board during the year, for example, have led to the introduction of new financial services into a market while other holding company acquisitions have encouraged an increased supply of credit in a particular area. In cases involving credit life and credit accident and health insurance underwriting, the Board has required holding companies to specify reduced premium rates, increased policy benefits, or both.

Competition has been increased in some markets either through *de novo* entry by a holding company, which adds a competitor to a market, or by limiting holding company acquisitions to organizations that are relatively small. In other cases, holding companies have been permitted to acquire financially weak institutions, thus giving them the ability to become more viable competitors.

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 36 of the 1,076 State member banks were examined during 1973.

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

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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 1973, 24 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 Adminis-

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trator of National Banks (Comptroller of the Currency), and the State bank supervisor.

Upon receipt of reports involving changes in control of State member banks, the Reserve Banks are under instructions to forward such reports promptly to the Board, together with a statement (1) that the new owner and management are known and acceptable to the Reserve Bank or (2) that they are not known and that an investigation is being made. The findings of any investigation and the Reserve Bank's conclusions based on such findings are forwarded to the Board.

By Act of Congress approved July 3, 1967 (Public Law 90–44), each member bank of the Federal Reserve System is required to include with (but not as part of) each report of condition and copy thereof a report of all loans to its executive officers since the date of submission of its previous report of condition. Since the Board's 1972 ANNUAL REPORT was released, member banks have submitted, as required by law, the data that appear in the accompanying table.

LOANS TO EXECUTIVE OFFICERS

Period covered (condition report dates)	Total loans to executive officers		Range of interest rate charged (per cent)
	Number	Amount (dollars)	
Oct. 1, 1972—Dec. 31, 1972	6,993	23,105,396	1–18
Jan. 1, 1973—Mar. 28, 1973	7,450	25,388,389	1–24
Mar. 29, 1973—June 30, 1973	7,841	28,994,876	1–24
July 1, 1973—Oct. 17, 1973	8,483	29,268,677	1–24
Oct. 18, 1973—Dec. 31, 1973	7,110	26,379,504	1–24

Federal Reserve membership. As of December 31, 1973, member banks accounted for 40 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 77 per cent of the total

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deposits in such banks; these figures compare with 41 per cent, 61 per cent, and 78 per cent, respectively, at the end of 1972. State member banks accounted for 11 per cent of the number of all State commercial banks and 24 per cent of the banking offices, and they held 48 per cent of total deposits in State commercial banks.

Of the 5,737 banks that were members of the Federal Reserve System at the end of 1973, there were 4,661 national banks and 1,076 State banks. During the year there were net increases of 48 national and net declines of 16 State member banks. The decline in State member banks was offset in part by the organization of 90 new national banks and by the conversion of 8 nonmember banks to national banks. The decrease in State member banks reflected mainly 28 withdrawals from membership and 8 conversions to branches incident to mergers and absorptions.

At the end of 1973 member banks were operating 18,966 branches, facilities, and additional offices, 1,012 more than at the close of 1972. During the year member banks established 1,088 *de novo* branches and 4 facilities.

Detailed figures on changes in the banking structure during 1973 are shown in Table 18, pages 298 and 299.

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,"

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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 1973 the Board approved 20 of these applications, and it submitted 147 reports on competitive factors to the Comptroller of the Currency and 130 to the Federal Deposit Insurance Corporation. In addition, the Federal Reserve Banks approved nine 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 29 applications approved by the Board or the Reserve Banks, together with other pertinent information, is shown in Table 21, pages 302–24.

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.

Foreign branches of member banks. At the end of 1973, 125 member banks had in active operation a total of 699 branches in 76 foreign countries and overseas areas of the United States; 95 national banks were operating 625 of these branches, and 30 State member banks were operating 74 such branches. The number and location of these foreign branches were as shown in the tabulation on page 257.

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 1973 approved 91 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 91 branches overseas and closed 19.

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[Tabulation referred to on preceding page.]

Country	Number	Country	Number
Abu Dhabi	1	Liberia	2
Argentina	38	Luxembourg	6
Austria	1	Malaysia	5
Bahamas	91	Mariana Islands	1
Bahrain	2	Marshall Islands	1
Barbados	4	Mexico	5
Brunei	2	Monaco	1
Belgium	9	Netherlands	6
Bolivia	3	Netherlands Antilles	3
Brazil	21	Nicaragua	3
Canal Zone	2	Okinawa	2
Cayman Islands	32	Pakistan	4
Colombia	32	Panama	33
Dominican Republic	16	Paraguay	6
Dubai	3	Peru	6
Ecuador	15	Philippines	4
El Salvador	1	Puerto Rico	22
Fiji Islands	4	Qatar	1
France	15	Saudi Arabia	2
Germany	30	Singapore	14
Greece	16	Switzerland	9
Guam	7	Taiwan	5
Guatemala	3	Thailand	2
Guyana	1	Trinidad and Tobago	6
Haiti	2	Trucial State of Sharjah	1
Honduras	3	Truk Islands	1
Hong Kong	23	United Kingdom	52
India	11	Uruguay	5
Indonesia	6	Venezuela	4
Ireland	4	Vietnam	3
Israel	2	Virgin Islands (U.S.)	21
Italy	8	Virgin Islands (British)	3
Jamaica	9		
Japan	23	Other (West Indies)	14
Korea	3		
Lebanon	3	**Total**	**699**

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Foreign banking and financing corporations. At the end of 1973 there were five corporations operating under agreements with the Board pursuant to Section 25 of the Federal Reserve Act relating to investment by member banks in the stock of corporations engaged principally in international or foreign banking. Three of these "agreement" corporations were examined during the year by examiners for the Board of Governors. Another such corporation closed during 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 1973, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued final permits to 12 corporations to engage in international or foreign banking or other international or foreign financial operations. Twelve corporations began operations, while one was merged into another corporation and ceased to exist. At the end of the year there were 98 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 86 of these corporations during 1973.

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 or deny 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 244 branch applications, 101 investments in bank premises, 10 applications of State member banks to declare certain dividends, and approved 10 and denied 15 waivers of notice of intention to withdraw from membership in the Federal Reserve System. Under authority granted in (2) above, the Reserve Banks approved 1,623 applications.

The Board has delegated certain authorities to the Director or Acting Director of the Division of Supervision and Regulation. Under this authority 279 actions were taken. In addition, the Director or Acting Director of the Division of Supervision and Regulation is

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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 262 competitive factor reports were approved.

Bank Examination Schools. In 1973 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, 5,001 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 22 foreign countries.

Truth in Lending. A report entitled *Annual Report to Congress on Truth in Lending for the Year 1973* was submitted separately, pursuant to the Truth in Lending Act (Title I of the Consumer Credit Protection Act (Public Law 90–321)).

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Federal Reserve Banks

Examination of Federal Reserve Banks. The Board's Division of Federal Reserve Bank Operations examined the 12 Federal Reserve Banks, 24 branches, and 8 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 1973 and 1972.

Current earnings of $5,017 million in 1973 were 32 per cent higher than in 1972. The principal changes in earnings were increases

EARNINGS, EXPENSES, AND DISTRIBUTION OF NET EARNINGS OF FEDERAL RESERVE BANKS 1973 and 1972

In thousands of dollars

Item	1973	1972
Current earnings	5,016,769	3,792,334
Current expenses	495,117	414,606
Current net earnings	4,521,652	3,377,728
Net deduction from current net earnings	−80,654	−49,616
Net earnings before payments to U.S. Treasury	4,440,998	3,328,112
Dividends paid	49,140	46,183
Payments to U.S. Treasury (interest on F.R. notes)	4,340,680	3,231,268
Transferred to surplus	51,178	50,661

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of $1,125 million on U.S. Government securities, and $95 million on loans.

Current expenses were $495 million, or 19 per cent more than in 1972. Statutory dividends to member banks amounted to $49 million, an increase of $3 million from 1972. 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 $4,341 million for the year, compared with $3,231 million in 1972. This amount consists of all net earnings after dividends and the amount necessary to bring surplus to the level of paid-in capital.

A detailed statement of earnings and expenses of each Reserve Bank during 1973 is shown in Table 7, pages 282 and 283, and a condensed historical statement in Table 8, pages 284 and 285.

Holdings of loans and securities. The table on page 262 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 1973 amounted to $77,837 million—an increase of $6,446 million over 1972. Holdings of U.S. Government securities increased $5,078 million, loans $1,356 million, and acceptances $12 million.

The average rates of interest on holdings were up from 5.31 per cent to 6.44 per cent on U.S. Government securities, from 4.47 per cent to 6.52 per cent on loans, and from 4.61 per cent to 7.62 per cent on acceptances.

Volume of operations. Table 9 on page 286 shows the volume of operations in the principal departments of the Federal Reserve Banks for 1970–73.

Both the number and dollar amounts of loans increased during the year as the number of borrowing banks rose to 1,803, compared with 810 in 1972.

Improvements in the payments mechanism (discussed below) and faster movement of funds resulting from new regional check processing centers and changes in Regulation J are reflected in the 17 per cent increase in the number of checks handled. A further indication of growth in the movement of funds is the 23 per cent increase in the volume of transfers of funds through the Federal Reserve com-

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RESERVE BANK EARNINGS ON LOANS AND SECURITIES, 1971–73

Item and year	Total	Loans	Accept-ances	U.S. Govt. securities [1]
	In millions of dollars			
Average daily holdings: [2]				
1971	65,820	413	81	65,326
1972	71,391	322	89	70,980
1973	77,837	1,678	101	76,058
Earnings:				
1971	3,719.6	20.9	4.0	3,694.7
1972	3,789.7	14.4	4.1	3,771.2
1973	5,013.6	109.4	7.7	4,896.5
	In per cent			
Average rate of interest:				
1971	5.65	5.06	4.94	5.66
1972	5.31	4.47	4.61	5.31
1973	6.44	6.52	7.62	6.44

[1] Includes Federal agency obligations.
[2] Based on holdings at opening of business.

munications network. Also, with the continuing expansion of the food stamp program, the number of food coupons redeemed increased 10 per cent.

Payments mechanism developments. During 1973 the Federal Reserve Banks continued the programs announced in a policy statement that the Board of Governors had issued on June 17, 1971. This statement placed a high priority on improving the Nation's check collection system and on encouraging the expansion of facilities in the Reserve System's wire network.

In 1973, 12 regional centers were established to provide increases in overnight clearings of checks. Including the 23 centers previously established, a total of 35 regional clearing centers were operational at the end of the year. Seven of these centers are operated at remote sites, in cities other than the 36 locations of Federal Reserve Banks and branches. An additional 12 centers are under consideration for 1974, four of which are planned for operation at remote sites.

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Two Federal Reserve offices installed automated-communications-switching facilities in 1973, increasing the total number of offices equipped in this manner to seven. By mid-1974 six additional offices plan to install such facilities. At that time the 12 Federal Reserve Banks and the communications center at Culpeper, Virginia, will be capable of high-speed, interregional transfers of funds and settlement of balances between member banks and their customers.

In addition to the establishment of more regional clearing centers and to further developments in the Reserve System's wire network, the Federal Reserve Bank of Atlanta initiated operation of an automated clearing house in 1973. Reserve offices in San Francisco and Los Angeles had begun such operations in the latter part of 1972. These facilities provide the means for member banks and their customers to transfer funds on magnetic tape in lieu of paper checks. Other Federal Reserve offices are considering the initiation of such operations in 1974.

In concert with the above developments, the Board of Governors, in November 1973, published for comment proposed regulatory changes concerning the legal framework for electronic transfers of funds on the Reserve System's expanded wire network. The Board requested comment not only on the specifics of the regulatory changes but also on broader issues such as the appropriate roles of the Federal Reserve and financial institutions in the ownership and operation of an electronic payments system, the extent and conditions of access to the system, and how the costs for the system should be allocated.

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 1973 the guaranteeing agencies authorized the issuance of two new guarantee agreements. Loan authorizations outstanding on December 31, 1973, totaled $53 million, of which more than $51

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million represented outstanding loans and $1.6 million represented additional credit available to borrowers. Of total loans outstanding, 13 per cent on the average was guaranteed. During the year approximately $5 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 292 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 $3,703 million in 1973, of which $1,262 million represented an increase in the value of earmarked gold resulting from the change in the par value of the U.S. dollar in October 1973. At the end of the year such assets amounted to $68,859 million: $251 million in dollar deposits; $12,532 million of earmarked gold; $52,070 million of U.S. Treasury securities (including securities payable in foreign currencies); $581 million of bankers' acceptances purchased through Federal Reserve Banks; and $3,425 million of miscellaneous assets. The latter item consists mainly of dollar bonds issued by foreign countries and international organizations and debt securities issued by U.S. Federally sponsored agencies and U.S. corporations.

Assets held for international and regional organizations amounted to $15,342 million at the end of 1973, an increase of $2,151 million. The increase included a rise of $453 million in the value of earmarked gold resulting from the change in the par value of the U.S. dollar and an increase of $754 million in dollar holdings of the International Monetary Fund, representing the increase in the amount payable to maintain the value of IMF holdings of U.S. dollars.

The Federal Reserve Banks did not make any loans against gold collateral in 1973.

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 Viet-

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nam, 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 1973 the Minneapolis Bank occupied its new banking quarters; the vacated Cincinnati Branch building was sold; and with the approval of the Board, the Charlotte Branch acquired property for a future building site.

Table 6 on page 281 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and of real estate acquired for banking-house purposes.

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Board of Governors

Income and expenses. The accounts of the Board for the year 1973 were audited by the public accounting firm of Touche Ross & Co.

ACCOUNTANTS' OPINION

Board of Governors of the
Federal Reserve System
Washington, D.C.

We have examined the balance sheet of the Board of Governors of the Federal Reserve System as of December 31, 1973 and 1972, and the related statements of assessments and expenses, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Board of Governors of the Federal Reserve System at December 31, 1973 and 1972, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Certified Public Accountants

Washington, D.C.
January 30, 1974

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Board of Governors of the Federal Reserve System

Balance Sheet

Assets	December 31 1973	December 31 1972
Operating Fund:		
Cash	$ 8,513,248	$ 5,564,301
Miscellaneous receivables and advances	73,705	92,076
Stockroom and cafeteria inventories—at cost (first-in, first-out method)	88,605	51,950
Total operating fund	8,675,558	5,708,327
Property Fund:		
Land and improvements	792,852	792,852
Building	4,396,950	4,298,315
Furniture and equipment	2,126,172	2,015,858
Construction-in-progress	35,602,065	22,031,509
Total property fund	42,918,039	29,138,534
	$51,593,597	$34,846,861

Liabilities and Fund Balances	December 31 1973	December 31 1972
Operating Fund:		
Accounts payable and accrued expenses	$ 2,127,548	$ 2,827,929
Income taxes withheld	231,867	187,054
Accrued payroll	505,801	368,533
Retention on construction-in-progress	1,662,319	1,662,319
	4,527,535	5,045,835
Fund balance:		
Balance, beginning of year	662,492	3,390,015
Assessments over (under) expenses	3,485,531	(2,727,523)
Balance, end of year	4,148,023	662,492
Total operating fund	8,675,558	5,708,327
Property Fund:		
Fund balance:		
Balance, beginning of year	29,138,534	16,522,347
Additions—at cost	13,829,796	12,699,379
Disposals—at cost	(50,291)	(83,192)
Net increase	13,779,505	12,616,187
Total property fund, end of year	42,918,039	29,138,534
	$51,593,597	$34,846,861

See notes to financial statements.

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Board of Governors of the Federal Reserve System

Statement of Assessments and Expenses

	Year ended December 31	
	1973	1972
Assessments Levied on Federal Reserve Banks:		
For Board expenses and additions to property....	$44,411,700	$35,234,500
For expenditures made on behalf of the Federal Reserve Banks....	31,658,174	28,957,493
Total assessments....	76,069,874	64,191,993
Expenses:		
For the Board:		
Salaries....	18,882,255	17,167,836
Retirement and insurance contributions....	1,738,258	1,605,754
Travel expenses....	782,253	718,917
Legal, consultant and audit fees....	469,217	535,104
Contractual services....	258,951	400,714
Printing and binding—net....	736,876	663,988
Equipment, office space and other rentals....	2,720,257	2,658,376
Telephone and telegraph....	396,612	304,183
Postage and expressage....	331,094	298,855
Stationery, office and other supplies....	183,807	217,391
Heat, light and power....	106,745	103,566
Operation of cafeteria—net....	165,938	134,438
Repairs, maintenance and alterations....	83,778	222,274
Books and subscriptions....	60,183	56,472
System membership, Center for Latin American Monetary Studies....	43,872	27,645
Miscellaneous—net....	141,617	168,796
	27,101,713	25,284,309
For additions to property—net of recovery on disposals of $5,340 in 1973 and $21,665 in 1972....	13,824,456	12,677,714
	40,926,169	37,962,023
Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks....	31,658,174	28,957,493
Total expenses....	72,584,343	66,919,516
Assessments Over (Under) Expenses....	$ 3,485,531	$(2,727,523)

See notes to financial statements.

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Board of Governors of the Federal Reserve System

Statement of Changes in Financial Position

	Year ended December 31	
	1973	1972
Source of Funds:		
Assessments over (under) expenses	$ 3,485,531	$(2,727,523)
Net increase in property fund	13,779,505	12,616,187
Increase in accrued payroll	137,268	40,931
Increase in income taxes withheld	44,813	29,057
Decrease in miscellaneous receivables and advances	18,371	....
Increase in retention on construction-in-progress	....	1,662,319
Increase in accounts payable and accrued expenses	....	1,105,915
	17,465,488	12,726,886
Application of Funds:		
Additions to property—net:		
Construction-in-progress	13,570,556	12,259,794
Furniture and equipment	110,314	342,259
Building	98,635	14,134
	13,779,505	12,616,187
Decrease in accounts payable and accrued expenses	700,381	....
Increase in stockroom and cafeteria inventories	36,655	12,755
Increase in miscellaneous receivables and advances	....	33,854
	14,516,541	12,662,796
Increase in Cash	$ 2,948,947	$ 64,090

Notes to Financial Statements

Years Ended December 31, 1973 and 1972

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.

The Board does not charge depreciation as an operating expense. 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.

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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 for the cost of the work to December 31, 1973. 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 $44,000,000, 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 per cent of the amount of the original 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, at December 31, 1973, the only fixed future rental commitment is $751,000 for 1974. Rent expense for outside office and parking space for the years ended December 31, 1973 and 1972 was approximately $1,064,000 and $862,000 respectively.

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 participate in the Federal Reserve System's Thrift Plan. Under this plan, the Board adds a fixed percentage to allowable employee savings.

Board contributions to these plans totaled $1,494,707 in 1973 and $1,394,036 in 1972. There was [sic] no unfunded prior service costs under either plan.

COMMITMENTS AND CONTINGENT LIABILITIES

The Board has authorized the purchase of a computer and certain peripheral equipment for approximately $4,100,000. The equipment is to be delivered in April 1974.

Litigation involving the Board generally arises from challenges to, or appeals from actions or proposed actions of the Board pursuant to statutory or regulatory requirement or authorization. In essence, such lawsuits seek injunctive or declaratory relief against the Board rather than monetary awards. In 1973, however, one class action case joining as defendants the Board, the Secretary of the Treasury and several commercial banks requests substantial monetary award. Based upon realistic appraisal of the real potential for recovery and upon the Board's previous experience in suits involving gross claims, Board counsel is of the opinion that the suit is sufficiently lacking in merit as to present no real probability of substantial liability to the Board.

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Statistical Tables

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1. DETAILED STATEMENT OF CONDITION OF ALL FEDERAL RESERVE BANKS COMBINED, DECEMBER 31, 1973

(In thousands of dollars)

ASSETS				
Gold certificates on hand			1,278	
Gold certificates due from U.S. Treasury:				
Interdistrict settlement fund			8,904,121	
F.R. Agents' fund			2,555,000	
Total gold certificate account				**11,460,399**
Special Drawing Rights certificate account				**400,000**
F.R. notes of other F.R. Banks				**1,207,557**
Other cash:				
United States notes			244	
Silver certificates			52	
National bank notes and F.R. Bank notes			92	
Coin			270,732	
Total other cash				**271,120**
Loans to member banks secured by—				
U S. Govt. and agency obligations		310,290		
Other eligible paper		834,579		
Other paper (Sec. 10(b))		112,726	1,257,595	
Loans to others			....	
Foreign loans on gold			....	
Total loans			**1,257,595**	
Acceptances:				
Bought outright			**68,014**	
Held under repurchase agreement			....	
Federal agency obligations:				
Bought outright			**1,937,500**	
Held under repurchase agreement			**42,000**	
U.S. Govt. securities:				
Bought outright:				
Bills	**36,897,065**			
Certificates	....			
Notes	**38,412,239**			
Bonds	**3,148,915**			
Total bought outright		**78,458,219**		
Held under repurchase agreement		**58,000**		
Total U.S. Govt. securities			**78,516,219**	
Total loans and securities				**81,821,328**
Cash items in process of collection:				
Transit items			7,450,577	
Exchanges for clearing house			268,925	
Other cash items			2,133,716	
Total cash items in process of collection				**9,853,218**
Bank premises:				
Land			67,477	
Buildings (including vaults)		131,294		
Fixed machinery and equipment		81,743		
Construction account		67,735		
Total buildings		280,772		
Less depreciation allowances		126,682	154,090	
Total bank premises				**221,567**
Other assets:				
Denominated in foreign currencies			4,357	
Reimbursable expenses and other items receivable			9,695	
Interest accrued			732,586	
Premium on securities			46,275	
Deferred charges			4,292	
Real estate acquired for banking-house purposes			2,800	
Suspense account			72,895	
Overdrafts			53,049	
All other			3,324	
Total other assets				**929,273**
Total assets				**106,164,462**

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LIABILITIES			
F.R. notes:			
Outstanding (issued to F.R. Banks)		68,160,683	
Less: Held by issuing F.R. Banks	2,607,093		
Forwarded for redemption	82,729	2,689,822	
F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank)			**65,470,861**
Deposits:			
Member bank reserves		**26,759,986**	
Due to other F.R. Banks collected funds		**579,787**	
U.S. Treasurer—General account		**2,543,459**	
Foreign		**250,775**	
Other deposits:			
Nonmember bank—Clearing accounts	2,409		
Officers' and certified checks	14,857		
Reserves of corporations doing foreign banking or financing	146,698		
International organizations	130,551		
Secretary of Treasury special account	267,860		
All other	488,664		
Total other deposits		**1,051,039**	
Total deposits			**31,185,046**
Deferred availability cash items			**6,840,746**
Other liabilities:			
Unearned discount		511	
Discount on securities		914,785	
Sundry items payable		18,734	
Suspense accounts		45,305	
All other		428	
Total other liabilities			**979,763**
Total liabilities			**104,476,416**
CAPITAL ACCOUNTS			
Capital paid in			**844,023**
Surplus			**844,023**
Other capital accounts [1]			....
Total liabilities and capital accounts			**106,164,462**
Contingent liability on acceptances purchased for foreign correspondents			**581,095**

[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. 282 and 283.

NOTE.—Amounts in boldface type indicate items shown in the Board's weekly statement of condition of the F.R. Banks.

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2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1973 AND 1972

(In millions of dollars unless otherwise indicated)

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972
ASSETS												
Gold certificate account	11,460	10,303	391	504	3,231	2,064	817	632	827	885	1,283	1,013
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	1,208	1,157	96	169	198	206	63	54	89	76	109	121
Other cash	271	313	15	14	19	17	2	10	32	39	28	36
Loans:												
Secured by U.S. Govt. and agency obligations	385	1,975	9	59	63	926	18	93	95	194	6	52
Other	872	7	2	....	422	....	1	....	....	....	47	....
Acceptances:												
Bought outright	68	70	....	....	68	70	....	....	....	....	....	....
Held under repurchase agreements	....	36	....	....	....	36	....	....	....	....	....	....
Federal agency obligations:												
Bought outright	1,937	1,311	91	62	477	332	106	72	149	98	147	98
Held under repurchase agreements	42	13	....	....	42	13	....	....	....	....	....	....
U.S. Govt. securities:												
Bought outright[1]	78,458	69,808	3,680	3,281	19,314	17,702	4,296	3,841	6,016	5,225	5,959	5,216
Held under repurchase agreements	58	98	....	....	58	98	....	....	....	....	....	....
Total loans and securities	81,820	73,318	3,782	3,402	20,444	19,177	4,421	4,006	6,260	5,517	6,159	5,366
Cash items in process of collection	9,852	10,782	361	376	2,575	2,543	394	447	445	597	790	965
Bank premises	223	194	44	29	10	7	10	5	27	27	14	13
Other assets:												
Denominated in foreign currencies	4	192	....	9	1	50	....	10	1	17	....	10
All other	925	874	39	41	207	211	48	45	65	71	67	71
Total assets	106,163	97,533	4,751	4,567	26,778	24,368	5,778	5,232	7,779	7,262	8,486	7,631

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Item												
LIABILITIES												
F.R. notes	65,470	59,914	3,257	3,116	16,082	14,809	4,092	3,647	5,243	4,752	5,844	5,315
Deposits:												
Member bank reserves	26,759	25,505	771	936	7,780	7,073	1,029	1,011	1,701	1,552	1,350	1,248
U.S. Treasurer—General account	2,542	1,855	188	110	394	388	139	121	151	144	365	164
Foreign	251	325	11	13	59	111	13	15	24	26	13	15
All other[2]	1,633	840	21	12	674	570	39	24	31	21	50	31
Total deposits	31,185	28,525	991	1,071	8,907	8,142	1,220	1,171	1,907	1,743	1,778	1,458
Deferred availability cash items	6,839	6,951	391	285	1,118	863	331	307	407	582	701	734
Other liabilities and accrued dividends	981	557	44	27	241	140	51	29	74	41	69	40
Total liabilities	104,475	95,947	4,683	4,499	26,348	23,954	5,694	5,154	7,631	7,118	8,392	7,547
CAPITAL ACCOUNTS												
Capital paid in	844	793	34	34	215	207	42	39	74	72	47	42
Surplus	844	793	34	34	215	207	42	39	74	72	47	42
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	106,163	97,533	4,751	4,567	26,778	24,368	5,778	5,232	7,779	7,262	8,486	7,631
Contingent liability on acceptances purchased for foreign correspondents	581	179	24	8	152	47	29	9	53	16	30	9
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding	68,161	62,492	3,393	3,306	16,698	15,482	4,174	3,725	5,464	4,929	6,033	5,482
Less held by issuing Bank, and forwarded for redemption	2,691	2,578	136	190	616	673	82	78	221	177	189	167
F.R. notes, net[3]	65,470	59,914	3,257	3,116	16,082	14,809	4,092	3,647	5,243	4,752	5,844	5,315
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account	2,555	2,561	175	250	....	....	400	600	350	350	750	501
U.S. Govt. securities	66,335	61,015	3,230	3,070	16,850	15,560	3,800	3,300	5,200	4,700	5,340	5,025
Total collateral	68,890	63,576	3,405	3,320	16,850	15,560	4,200	3,900	5,550	5,050	6,090	5,526

For notes see end of table.

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2. STATEMENT OF CONDITION OF EACH FEDERAL RESERVE BANK, DECEMBER 31, 1973 AND 1972—*Continued*

(In millions of dollars unless otherwise indicated)

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972	1973	1972
ASSETS														
Gold certificate account	847	647	1,595	1,846	359	534	114	78	416	433	253	378	1,327	1,289
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	189	166	69	102	49	35	27	27	62	39	86	44	171	118
Other cash	39	40	33	40	19	21	10	5	32	42	14	14	28	35
Loans:														
Secured by U.S. Govt. and agency obligations	59	88	38	262	3	52	10	2	16	7	15	41	53	199
Other	50	7	158	....	18	....	....	....	11	....	23	....	140	....
Acceptances:														
Bought outright	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Held under repurchase agreements	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Federal agency obligations:														
Bought outright	111	72	316	211	72	47	40	26	76	52	89	57	263	184
Held under repurchase agreements	....	....	....	....	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities:														
Bought outright[1]	4,506	3,831	12,781	11,231	2,935	2,508	1,631	1,367	3,091	2,753	3,593	3,048	10,656	9,805
Held under repurchase agreements	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Total loans and securities	4,726	3,998	13,293	11,704	3,028	2,607	1,681	1,395	3,194	2,812	3,720	3,146	11,112	10,188
Cash items in process of collection	759	928	1,288	1,459	463	444	400	457	602	678	562	707	1,213	1,181
Bank premises	15	15	16	16	14	15	36	30	17	17	12	12	8	8
Other assets:														
Denominated in foreign currencies	....	13	1	29	....	7	....	4	....	8	....	10	1	25
All other	59	43	132	126	32	27	50	18	32	35	38	35	156	151
Total assets	6,656	5,872	16,497	15,392	3,979	3,705	2,325	2,021	4,370	4,079	4,699	4,360	14,065	13,044

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LIABILITIES														
F.R. notes	3,560	3,191	10,926	10,064	2,602	2,320	1,171	1,041	2,544	2,315	2,489	2,298	7,660	7,046
Deposits:														
Member bank reserves	1,819	1,682	3,516	3,516	771	814	619	549	1,067	1,003	1,496	1,373	4,840	4,748
U.S. Treasurer—General account	237	144	208	190	178	142	89	52	114	102	130	124	349	174
Foreign	18	20	41	43	9	10	6	7	11	12	14	16	32	37
All other [2]	247	20	438	51	15	10	9	6	16	12	22	17	71	66
Total deposits	2,321	1,866	4,203	3,800	973	976	723	614	1,208	1,129	1,662	1,530	5,292	5,025
Deferred availability cash items	584	672	953	1,192	311	335	368	315	511	546	413	422	751	698
Other liabilities and accrued dividends	67	33	151	88	35	20	23	15	37	23	43	24	146	77
Total liabilities	6,532	5,762	16,233	15,144	3,921	3,651	2,285	1,985	4,300	4,013	4,607	4,274	13,849	12,846
CAPITAL ACCOUNTS														
Capital paid in	62	55	132	124	29	27	20	18	35	33	46	43	108	99
Surplus	62	55	132	124	29	27	20	18	35	33	46	43	108	99
Other capital accounts	....	....	....	....	....	....	....	....	....	....	....	....	....	....
Total liabilities and capital accounts	6,656	5,872	16,497	15,392	3,979	3,705	2,325	2,021	4,370	4,079	4,699	4,360	14,065	13,044
Contingent liability on acceptances purchased for foreign correspondents	41	12	91	27	20	6	13	4	24	8	31	10	73	23
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding	3,799	3,399	11,242	10,399	2,728	2,431	1,222	1,078	2,660	2,405	2,638	2,418	8,110	7,438
Less held by issuing Bank, and forwarded for redemption	239	208	316	335	126	111	51	37	116	90	149	120	450	392
F.R. notes, net [3]	3,560	3,191	10,926	10,064	2,602	2,320	1,171	1,041	2,544	2,315	2,489	2,298	7,660	7,046
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account	....	....	700	700	175	155	....	....	....	....	5	5	....	....
U.S. Govt. securities	3,900	3,500	10,600	9,900	2,620	2,330	1,240	1,100	2,700	2,450	2,655	2,480	8,200	7,600
Total collateral	3,900	3,500	11,300	10,600	2,795	2,485	1,240	1,100	2,700	2,450	2,660	2,485	8,200	7,600

[1] Includes securities loaned—fully secured by U.S. Govt. securities pledged with F.R. Banks.

[2] Includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with F.R. Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System's program of credit restraint.

[3] Includes F.R. notes held by U.S. Treasury and by F.R. Banks other than the issuing Bank.

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3. FEDERAL RESERVE BANK HOLDINGS OF U.S. GOVERNMENT AND FEDERAL AGENCY SECURITIES, DECEMBER 31, 1971–73

(In millions of dollars)

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (–) during—	
		1973	1972	1971	1973	1972
Treasury bonds:						
1967–72 June	2½			89		–89
1967–72 Sept	2½			108		–108
1967–72 Dec.	2½			130		–130
1972 Feb.	4			197		–197
1972 Aug.	4			149		–149
1973 Aug.	4		331	264	–331	67
1973 Nov.	4⅛		411	380	–411	31
1974 Feb.	4⅛	210	200	180	10	20
1974 May	4¼	337	304	292	33	12
1974 Nov.	3⅞	68	68	68		
1975–85	4¼	140	132	124	8	8
1978–83	3¼	78	78	76		2
1980 Feb.	4	150	145	122	5	23
1980 Nov.	3½	74	74	73		1
1981 Aug.	7	121	114	105	7	9
1982 Feb.	6⅜	348	270		78	270
1984 Aug.	6⅜	329	283		46	283
1985 May	3¼	47	47	47		
1986 Nov	6⅛	301	292	207	9	85
1987–92	4¼	504	496	462	8	34
1988–93	4	24	24	24		
1988–93	7½	125			125	
1989–94	4⅛	77	77	72		5
1990 Feb.	3½	84	84	84		
1993 Feb.	6¾	23			23	
1993–98	7	75			75	
1995 Feb.	3	2	2	2		
1998 Nov.	3½	31	31	31		
Total		3,149	3,462	3,286	–313	176
Treasury notes:						
Feb. 15, 1972—A	4¾			140		–140
Feb. 15, 1972—C	7½			234		–234
Apr. 1, 1972—EA	1½			2		–2
May 15, 1972—B	4¾			2,381		–2,381
May 15, 1972—D	6¾			129		–129
Aug. 15, 1972—E	5			1,345		–1,345
Nov. 15, 1972—F	6			43		–43
Feb. 15, 1973—C	6½		122	82	–122	40
Feb. 15, 1973—D	4⅞		1,770	1,718	–1,770	52
May 15, 1973—A	7¾		2,626	2,618	–2,626	8
May 15, 1973—E	4¾		2,513		–2,513	2,513
Aug. 15, 1973—B	8⅛		232	223	–232	9
Feb. 15, 1974—C	7¾	325	284	250	41	34
May 15, 1974—D	7¼	999	963	952	36	11
Aug. 15, 1974—B	5⅝	5,305	5,233	5,180	72	53
Sept. 30, 1974—E	6	94			94	
Nov. 15, 1974—A	5¾	1,891	1,876	1,849	15	27
Dec. 31, 1974—F	5⅞	34			34	
Feb. 15, 1975—A	5¾	1,095	1,087	1,076	8	11
Feb. 15, 1975—E	5⅞	106	90	31	16	59
May 15, 1975—B	6	3,780	3,728	3,722	52	6
May 15, 1975—F	5⅞	119	67		52	67
Aug. 15, 1975—C	5⅞	2,388	2,372	2,314	16	58
Nov. 15, 1975—D	7	464	462	390	2	72
Dec. 31, 1975—H	7	193			193	
Feb. 15, 1976—A	6¼	2,507	2,507	2,507		
Feb. 15, 1976—F	5⅞	934	898		36	898
May 15, 1976—B	6½	345	345	335		10
May 15, 1976—E	5¾	462	456		6	456
Aug. 15, 1976—C	7½	720	714	657	6	57
Aug. 15, 1976—G	6½	1,605			1,605	
Nov. 15, 1976—D	6¼	49	47	16	2	31
Feb. 15, 1977—A	8	2,451	2,448	2,392	3	56
Aug. 15, 1977—B	7¾	805	336	309	469	27
Feb. 15, 1978—A	6¼	2,573	2,568	2,462	5	106
Nov. 15, 1978—B	6	2,440	2,425	2,201	15	224
Aug. 15, 1979—A	6¼	512	512			512
Nov. 15, 1979—B	6⅝	844			844	
Nov. 15, 1979—C	7	220			220	
May 15, 1980—A	6⅞	5,155			5,155	
Total		38,412	36,681	35,554	1,731	1,127

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Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (−) during—	
		1973	1972	1971	1973	1972
Treasury bills:						
Tax anticipation	....	344	11	101	333	−90
Other, due—						
Within 3 mos	....	24,255	19,651	18,670	4,604	981
3–6 mos	....	8,396	6,516	7,826	1,880	−1,310
After 6 mos	....	3,903	3,486	3,558	417	−72
Total	....	36,897	29,665	30,155	7,232	−490
Repurchase agreements	....	58	98	1,222	−40	−1,124
U.S. Govt. securities—Total	....	**78,516**	**69,906**	**70,218**	**8,610**	**−311**
Maturing—						
Within 90 days	....	24,847	21,671	19,741	3,176	1,930
91 days to 1 year	....	21,369	16,097	16,583	5,272	−486
Over 1 year to 5 years	....	23,035	24,484	25,100	−1,449	−616
Over 5 years to 10 years	....	7,503	6,108	7,664	1,395	−1,556
Over 10 years	....	1,762	1,546	1,129	216	417
Federal agency obligations:						
Held outright:						
Banks for coops	....	....	....	24	....	−24
Export-Import Bank	....	108	106	9	2	97
Fed. home loan banks	....	263	156	76	107	80
Fed. intermediate credit banks	....	71	22	122	49	−100
Federal land banks	....	246	141	35	105	106
Farmers Home Admin.	....	134	36	....	98	36
Fed. Natl. Mort. Assn.	....	1,011	785	201	226	584
Govt. Natl. Mort. Assn.—PC's	....	58	48	19	10	29
U.S. Postal Service	....	25	14	....	11	14
Wash. Metro. Area Transit Authority	....	21	4	....	17	4
General Services Admin.	....	1	....	....	1	....
Total	....	1,938	1,311	485	627	826
Held under Rp's	....	42	13	101	29	−88

4. FEDERAL RESERVE BANK HOLDINGS OF SPECIAL SHORT-TERM TREASURY CERTIFICATES PURCHASED DIRECTLY FROM THE UNITED STATES, 1968–73

(In millions of dollars)

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1968		1969		1969		1972	
Sept. 9	87	Apr. 13[1]	976	Sept. 16	972	Sept. 12	38
Dec. 10	92	14	514				
12	45	15	502	1970	none		
13	430	16	627				
14	430	Sept. 5	322			1973	
15[1]	430	6	322	1971		Aug. 15	351
16	447	7[1]	322	June 8	79	Sept. 7	73
17	596	8	653	9	582	8	73
		9	830	10	610	9[1]	73
1969		10	1,102	11	593	10	42
Apr. 8	151	11	862	12	593	11	485
9	519	12	759	13[1]	593	12	169
10	490	13	759	14	243	14	319
11	976	14[1]	759	15	588	15	319
12	976	15	513	16	349	16	319

[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 REPORTS.

No holdings on date not shown.

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5. OPEN MARKET TRANSACTIONS OF THE FEDERAL RESERVE SYSTEM DURING 1973

(In millions of dollars)

Month	Outright transactions in U.S. Govt. securities, by maturity (excluding matched sale-purchase transactions)								
	Treasury bills			Others within 1 year [1]			1–5 years		
	Gross purchases	Gross sales	Redemptions	Gross purchases	Gross sales	Exch., maturity shifts, or redemptions	Gross purchases	Gross sales	Exch. or maturity shifts
January	1,855	530	....	....	....	....	....	....	....
February	1,558	695	200	25	....	−1,408	61	....	3,476
March	1,569	260	200	....	....	....	....	....	....
April	1,377	....	51	50	....	....	127	....	....
May	717	623	600	....	....	−3,829	....	....	−1,316
June	1,047	218	163	17	....	....	123	....	....
July	1,640	495	60	....	....	....	27	....	....
August	655	945	456	351	....	4,361	....	....	−4,812
September	480	401	564	836	....	−813	....	....	−23
October	2,117	153	....	....	....	....	....	....	....
November	583	489	1,101	41	....	1,515	125	....	680
December	1,919	70	10	75	....	34	116	....	−34
Total	15,517	4,880	3,405	1,396	....	−140	579	....	−2,028

Month	Outright transactions (cont.)						Total outright			Matched sale-purchase transactions (Treasury bills)	
	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	Redemptions	Gross sales	Gross purchases
January	....	....	....	....	....	....	1,855	530	....	1,205	1,205
February	79	....	−2,068	32	....	....	1,754	695	200	4,521	4,521
March	....	....	....	....	....	....	1,569	260	200	1,941	1,941
April	19	....	....	11	....	....	1,584	....	51	2,101	2,101
May	....	....	5,105	....	....	40	717	623	600	1,105	1,105
June	37	....	78	51	....	−78	1,274	218	163	4,630	4,630
July	....	....	....	....	....	....	1,666	495	60	3,405	3,405
August	....	....	....	....	....	100	1,006	945	807	9,632	9,632
September	....	....	....	....	....	....	1,316	401	1,400	6,981	6,981
October	....	....	....	....	....	....	2,117	153	....	4,735	4,735
November	331	....	−2,220	35	....	25	1,116	489	1,101	2,089	2,089
December	35	....	....	....	....	....	2,145	70	10	3,435	3,435
Total	500	....	895	129	....	87	18,121	4,880	4,592	45,780	45,780

Month	Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Federal agency obligations			Bankers' acceptances, net		Net change [2]
				Outright		Repurchase agreements, net			
	Gross purchases	Gross sales		Gross purchases	Sales or redemptions		Outright	Repurchase agreements	
January	9,719	8,928	2,116	....	....	48	11	23	2,197
February	2,774	3,034	599	....	18	−28	−3	95	644
March	6,024	5,478	1,656	....	14	61	−1	−66	1,636
April	5,664	5,978	1,218	....	19	−65	7	−36	1,106
May	7,379	8,240	−1,367	....	21	−29	−1	−52	−1,470
June	5,621	5,621	893	229	19	....	−17	....	1,085
July	7,651	6,686	2,076	174	6	106	−12	78	2,416
August	2,234	2,492	−1,005	....	20	157	−7	−41	−915
September	3,309	2,752	72	....	30	−95	−9	69	7
October	8,220	7,859	2,325	176	4	−20	8	−46	2,440
November	6,637	7,525	−1,360	74	3	20	−2	−34	−1,307
December	9,523	10,202	1,387	212	84	−126	23	−26	1,386
Total	74,755	74,795	8,610	865	239	29	−2	−36	9,227

[1] Includes special certificates acquired when the Treasury borrows directly from the Federal Reserve, as follows: Aug., 351 million, and Sept., 836 million.
[2] Net change in U.S. Govt. securities, Federal agency obligations, and bankers' acceptances.
NOTE.—Sales, redemptions, and negative figures reduce System holdings; other figures increase them.

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6. BANK PREMISES OF FEDERAL RESERVE BANKS AND BRANCHES, DECEMBER 31, 1973

(In dollars)

F.R. Bank or branch	Cost				Net book value
	Land	Buildings (including vaults) [1]	Fixed machinery and equipment	Total	
Boston	24,020,212	25,142,571	3,136,208	52,298,991	43,796,428
New York	6,328,700	15,337,497	8,078,616	29,744,813	7,153,365
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	2,435,467
Philadelphia	3,254,353	11,930,822	2,154,452	17,339,627	10,435,069
Cleveland	1,295,490	6,658,601	3,572,665	11,526,756	1,074,121
Cincinnati	1,479,874	13,532,143	7,518,690	22,530,707	21,508,195
Pittsburgh	1,667,994	4,256,874	2,525,243	8,450,111	4,182,642
Richmond	2,342,774	5,837,820	2,500,681	10,681,275	4,769,400
Annex 1	146,875	256,000	2,313	405,188	174,608
Annex 2	394,763	3,579,167	2,903,991	6,877,921	5,801,622
Baltimore	801,779	2,009,381	1,163,973	3,975,133	1,772,929
Charlotte	347,071	1,069,026	625,121	2,041,218	1,033,976
Atlanta	1,304,755	5,804,778	3,558,580	10,668,113	5,825,076
Birmingham	410,775	2,000,619	1,019,618	3,431,012	1,687,193
Jacksonville	164,004	1,706,794	778,871	2,649,669	1,189,150
Annex	107,925	76,236	15,843	200,004	170,209
Nashville	592,342	1,474,678	1,098,924	3,165,944	1,624,617
New Orleans	1,557,663	2,754,272	1,448,181	5,760,116	4,244,180
Chicago	6,275,490	17,755,795	10,703,360	34,734,645	13,396,208
Annex	50,000	173,197	58,282	281,479	267,947
Detroit	1,147,734	3,062,834	1,680,387	5,890,955	2,551,123
St. Louis	1,675,780	3,171,719	2,941,024	7,788,523	1,286,941
Little Rock	800,104	1,979,782	965,202	3,745,088	2,884,954
Louisville	700,075	2,859,819	1,056,659	4,616,553	2,675,702
Memphis	1,135,623	4,216,382	2,086,133	7,438,138	6,974,315
Minneapolis	1,189,784	34,673,109	....	35,862,893	35,503,393
Helena	15,709	126,401	62,977	205,087	43,711
Kansas City	1,340,561	8,613,168	3,053,232	13,006,961	6,108,697
Denver	2,997,746	3,203,270	2,307,214	8,508,230	7,100,762
Oklahoma City	647,686	1,551,512	853,051	3,052,249	1,724,391
Omaha	996,489	1,613,491	748,915	3,358,895	2,064,002
Dallas	3,723,160	4,826,832	3,570,804	12,120,796	6,434,569
El Paso	262,477	787,728	393,301	1,443,506	897,173
Houston	1,959,770	1,454,321	714,187	4,128,278	3,106,499
San Antonio	448,596	1,400,390	570,846	2,419,832	1,506,136
San Francisco	684,340	3,783,530	1,925,551	6,393,421	521,083
Annex	247,201	124,000	30,000	401,201	334,001
Los Angeles	1,022,696	4,103,844	1,608,576	6,735,116	2,608,926
Portland	207,380	1,678,512	649,432	2,535,324	1,124,967
Salt Lake City	480,222	1 878,238	707,575	3,066,035	1,794,993
Seattle	274,772	1,890,966	1,058,744	3,224,482	1,301,002
Total	75,766,499	212,409,459	82,129,294	370,305,252	221,567,605

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	60,705	....	....	60,705	60,705
Cleveland	395,875	....	....	395,875	395,875
Richmond	326,403	....	....	326,403	326,403
Charlotte	1,432,630	....	....	1,432,630	1,432,630
Atlanta	452,827	....	....	452,827	452,827
Helena	131,739	....	....	131,739	131,739
Total	2,800,179	....	....	2,800,179	2,800,179

[1] Includes expenditures for construction at some offices pending allocation to appropriate accounts.

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7. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1973

(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	109,430,582	7,614,050	21,586,856	6,449,366	7,136,299	10,025,720	10,801,593	16,287,284	3,498,812	1,792,426	7,686,648	6,247,513	10,304,015
Acceptances	7,710,730	....	7,710,730	....	....	....	....	....	....	....	....	....	....
U.S. Govt. securities	4,896,508,414	221,873,896	1,317,088,878	257,976,379	362,859,741	351,002,336	262,347,634	778,388,289	177,084,559	97,099,794	192,124,993	212,600,020	666,061,895
Foreign currencies	449,269	19,313	117,203	22,568	40,969	23,341	31,080	69,226	15,194	10,307	18,949	24,403	56,716
All other	2,670,335	41,203	1,302,998	57,169	146,103	66,264	156,360	285,432	74,396	237,953	102,363	87,053	113,041
Total	5,016,769,330	229,548,462	1,347,806,665	264,505,482	370,183,112	361,117,661	273,336,667	795,030,231	180,672,961	99,140,480	199,932,953	218,958,989	676,535,667
CURRENT EXPENSES													
Salaries:													
Officers	16,894,795	1,107,634	3,476,858	1,086,768	1,006,540	1,528,856	1,348,376	1,571,595	1,226,757	882,159	1,171,780	1,007,557	1,479,915
Employees	216,321,186	14,518,976	53,098,352	10,843,787	13,586,409	17,337,798	18,000,906	28,160,993	12,360,012	8,249,664	12,250,077	10,425,002	17,489,210
Retirement and other benefits	40,570,742	2,885,313	9,429,129	2,011,831	2,601,051	3,180,147	3,287,320	5,181,768	2,366,508	1,520,526	2,300,532	2,028,838	3,777,779
Fees—Directors and others	4,608,281	185,955	1,779,944	332,557	298,554	177,837	255,526	377,240	159,108	398,051	130,434	126,096	386,979
Traveling expenses	5,085,469	379,504	827,678	193,977	327,934	375,025	547,396	563,535	295,997	356,201	330,531	298,346	589,345
Postage and expressage	57,449,688	3,300,495	7,633,417	2,636,908	5,306,387	6,106,261	6,621,759	7,089,704	4,176,730	2,390,366	3,493,989	3,102,343	5,591,329
Telephone and telegraph	5,587,862	292,938	1,071,178	207,548	330,810	472,267	721,919	676,156	312,988	241,981	495,570	426,825	337,682
Printing and supplies	19,408,840	1,195,504	3,576,248	1,012,778	1,008,073	1,899,273	2,359,483	2,496,245	1,333,844	782,933	1,231,870	902,453	1,610,136
Insurance	804,116	52,000	157,995	30,030	70,223	65,880	70,491	76,030	57,162	30,025	56,791	42,327	95,162
Taxes on real estate	11,171,872	2,561,346	1,682,808	202,715	721,433	357,237	524,613	1,533,729	443,345	1,467,177	548,252	407,119	722,098
Depreciation	6,591,264	136,156	534,138	76,596	1,396,913	520,198	648,539	633,065	831,327	361,520	831,182	339,131	282,499
Light, heat, power, and water	4,595,244	265,999	814,385	188,610	620,766	358,818	375,905	553,448	345,631	222,117	381,272	212,520	255,773
Maintenance and repairs	3,233,478	276,420	847,873	173,246	221,426	334,550	211,686	260,239	320,566	104,158	119,677	94,385	269,252
Rent	5,264,156	1,049,445	2,791,266	297,848	154,226	143,821	488,289	276,246	45,070	217	12,380	3,036	2,312
Furniture and equipment:													
Purchases	10,485,160	474,745	4,139,253	415,833	549,458	415,311	1,156,925	922,730	341,717	500,977	554,702	509,532	503,977
Rentals	31,179,009	2,399,252	5,009,411	2,088,790	2,522,270	2,641,286	2,619,107	4,117,375	1,681,897	1,282,771	2,383,100	2,004,271	2,429,479
All other	9,196,736	865,377	2,177,574	568,669	561,762	370,309	797,885	1,508,117	254,557	426,996	362,823	798,860	503,807
Inter-office expenses	....	99,417	−1,454,353	118,000	217,461	−285,961	203,825	382,557	95,388	63,219	113,612	141,615	305,220
Subtotal	448,447,898	32,046,476	97,593,154	22,486,491	31,501,696	35,998,913	40,239,950	56,380,772	26,648,604	19,281,058	26,768,574	22,870,256	36,631,954
F.R. currency	33,826,299	1,580,049	6,237,084	2,052,861	2,078,256	3,500,418	3,569,407	3,927,084	1,593,075	842,609	1,976,685	1,865,504	4,603,267
Assessments for Board of Governors: [1]													
Operating expenses	27,193,200	1,857,600	11,498,900	2,192,099	4,008,800	2,355,300	3,131,800	6,961,600	1,508,800	1,023,500	1,866,300	2,422,502	5,584,500
Construction expenses	17,218,500												
Total	526,685,898	35,484,125	115,329,138	26,731,451	37,588,752	41,854,631	46,941,157	67,269,456	29,750,479	21,147,167	30,611,559	27,158,262	46,819,721
Less reimbursement for certain fiscal agency and other expenses	31,568,524	1,758,482	6,481,055	1,396,991	2,732,466	1,971,469	2,776,124	5,315,358	1,958,990	892,736	2,100,513	974,748	3,209,592
Net expenses	495,117,374	33,725,643	108,848,083	25,334,460	34,856,286	39,883,162	44,165,033	61,954,098	27,791,489	20,254,431	28,511,046	26,183,514	43,610,129

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PROFIT AND LOSS

Current net earnings	4,521,651,953	195,822,819	1,238,958,582	239,171,021	335,326,826	321,234,499	229,171,632	733,076,133	152,881,473	78,886,049	171,421,907	192,775,474	632,925,538
Additions to current net earnings:													
All other	2,336,124	84,751	503,461	71,440	899,838	95,140	102,827	145,672	61,838	69,899	96,446	81,479	123,333
Total additions	2,336,124	84,751	503,461	71,440	899,838	95,140	102,827	145,672	61,838	69,899	96,446	81,479	123,333
Deductions from current net earnings:													
Losses on sales of U.S. Govt. securities	35,241,103	1,600,658	9,281,164	1,894,162	2,625,734	2,529,866	1,869,963	5,659,178	1,292,199	700,901	1,416,118	1,546,151	4,825,009
Losses on foreign exchange transactions	47,416,528	1,991,494	12,375,714	2,323,410	4,314,904	2,465,659	3,319,157	7,444,395	1,612,162	1,090,580	1,991,494	2,560,493	5,927,066
All other	331,981	30,248	60,105	24,406	4,904	52,397	35,642	30,350	19,269	16,762	12,966	37,724	7,208
Total deductions	82,989,612	3,622,400	21,716,983	4,241,978	6,945,542	5,047,922	5,224,762	13,133,923	2,923,630	1,808,243	3,420,578	4,144,368	10,759,283
Net deduction from (−) current net earnings	−80,653,489	−3,537,648	−21,213,522	−4,170,538	−6,045,704	−4,952,782	−5,121,935	−12,988,251	−2,861,793	−1,738,344	−3,324,132	−4,062,890	−10,635,950
Net earnings before payments to U.S. Treasury	4,440,998,464	192,285,170	1,217,745,060	235,000,484	329,281,122	316,281,717	224,049,697	720,087,882	150,019,680	77,147,705	168,097,775	188,712,584	622,289,588
Dividends paid	49,139,683	2,018,707	12,549,890	2,416,994	4,400,130	2,684,548	3,565,229	7,729,090	1,666,567	1,147,795	2,053,131	2,686,541	6,221,061
Payments to U.S. Treasury (interest on F.R. notes)	4,340,680,483	189,416,364	1,196,836,370	229,888,440	322,347,692	308,264,120	213,799,618	704,086,842	146,823,563	74,484,209	164,539,344	183,063,194	607,130,727
Transferred to surplus	51,178,300	850,100	8,358,800	2,695,050	2,533,300	5,333,050	6,684,850	8,271,950	1,529,550	1,515,700	1,505,300	2,962,850	8,937,800
Surplus, January 1	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
Surplus, December 31	844,023,350	34,357,750	214,962,750	41,591,600	74,328,050	46,898,000	62,004,400	132,422,100	28,484,650	19,648,300	34,902,100	46,116,200	108,307,450

[1] See pp. 268–70 for additional details.

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

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8. EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, 1914–73

(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	...	...	...	...	r 48,334,341
1919	102,380,583	19,339,633	78,367,504	5,011,832	2,703,894	...	...	...	70,651,778
1920	181,296,711	28,258,030	149,294,774	5,654,018	60,724,742	...	...	...	82,916,014
1921	122,865,866	34,463,845	r 82,087,225	6,119,673	59,974,466	...	...	...	r 15,993,086
1922	50,498,699	29,559,049	16,497,736	6,307,035	10,850,605	...	...	...	−659,904
1923	50,708,566	29,764,173	12,711,286	6,552,717	3,613,056	...	...	...	2,545,513
1924	38,340,449	28,431,126	3,718,180	6,682,496	113,646	...	...	...	−3,077,962
1925	41,800,706	27,528,163	9,449,066	6,915,958	59,300	...	...	...	2,473,808
1926	47,599,595	27,350,182	16,611,745	7,329,169	818,150	...	...	...	8,464,426
1927	43,024,484	27,518,443	13,048,249	7,754,539	249,591	...	...	...	5,044,119
1928	64,052,860	26,904,810	32,122,021	8,458,463	2,584,659	...	...	...	21,078,899
1929	70,955,496	29,691,113	36,402,741	9,583,911	4,283,231	...	...	...	22,535,597
1930	36,424,044	28,342,726	7,988,182	10,268,598	17,308	...	...	...	−2,297,724
1931	29,701,279	27,040,664	2,972,066	10,029,760	...	...	...	...	−7,057,694
1932	50,018,817	26,291,381	22,314,244	9,282,244	2,011,418	...	...	...	11,020,582
1933	49,487,318	29,222,837	7,957,407	8,874,262	...	...	...	...	r −916,855
1934	48,902,813	29,241,396	15,231,409	8,781,661	...	...	...	−60,323	r 6,510,071
1935	42,751,959	31,577,443	9,437,758	8,504,974	...	297,667	...	27,695	607,422
1936	37,900,639	29,874,023	8,512,433	7,829,581	...	227,448	...	102,880	352,524
1937	41,233,135	28,800,614	10,801,247	7,940,966	...	176,625	...	67,304	2,616,352
1938	36,261,428	28,911,600	9,581,954	8,019,137	...	119,524	...	−419,140	1,862,433
1939	38,500,665	28,646,855	12,243,365	8,110,462	...	24,579	...	−425,653	4,533,977
1940	43,537,805	29,165,477	25,860,025	8,214,971	...	82,152	...	−54,456	17,617,358
1941	41,380,095	32,963,150	9,137,581	8,429,936	...	141,465	...	−4,333	570,513
1942	52,662,704	38,624,044	12,470,451	8,669,076	...	197,672	...	49,602	3,554,101
1943	69,305,715	43,545,564	49,528,433	8,911,342	...	244,726	...	135,003	40,237,362
1944	104,391,829	49,175,921	58,437,788	9,500,126	...	326,717	...	201,150	48,409,795
1945	142,209,546	48,717,271	92,662,268	10,182,851	...	247,659	...	262,133	81,969,625
1946	150,385,033	57,235,107	92,523,935	10,962,160	...	67,054	...	27,708	81,467,013
1947	158,655,566	65,392,975	95,235,592	11,523,047	...	35,605	75,223,818	86,772	8,366,350
1948	304,160,818	72,710,188	197,132,683	11,919,809	...	...	166,690,356	...	18,522,518
1949	316,536,930	77,477,676	226,936,980	12,329,373	...	...	193,145,837	...	21,461,770

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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	r 15,558,377			342,567,985		40,336,862
1954	438,486,040	109,732,931	328,619,468	16,442,236			276,289,457		35,887,775
1955	412,487,931	110,060,023	302,162,452	17,711,937			251,740,721		32,709,794
1956	595,649,092	121,182,496	474,443,160	18,904,897			401,555,581		53,982,682
1957	763,347,530	131,814,003	624,392,613	20,080,527			542,708,405		61,603,682
1958	742,068,150	137,721,655	604,470,670	21,197,452			524,058,650		59,214,569
1959	886,226,116	144,702,706	839,770,663	22,721,687			910,649,768		−93,600,791
1960	1,103,385,257	153,882,275	963,377,684	23,948,225			896,816,359		42,613,100
1961	941,648,170	161,274,575	783,855,223	25,569,541			687,393,382		70,892,300
1962	1,048,508,335	176,136,134	872,316,422	27,412,241			799,365,981		45,538,200
1963	1,151,120,060	187,273,357	964,461,538	28,912,019			879,685,219		55,864,300
1964	1,343,747,303	197,395,889	1,147,077,362	30,781,548			1,582,118,614		−465,822,800
1965	1,559,484,027	204,290,186	1,356,215,455	32,351,602			1,296,810,053		27,053,800
1966	1,908,499,896	207,401,126	1,702,095,000	33,696,336			1,649,455,164		18,943,500
1967	2,190,403,752	220,120,846	1,972,376,782	35,027,312			1,907,498,270		29,851,200
1968	2,764,445,943	242,350,370	2,530,615,569	36,959,336			2,463,628,983		30,027,250
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
1973	5,016,769,328	495,117,376	4,440,998,464	49,139,682			4,340,680,482		51,178,300
Total 1914–73	41,971,189,099	5,915,323,105	36,103,146,741	947,048,682	149,138,300	2,188,893	34,032,078,974	−3,657	972,695,549
Aggregate for each F.R. Bank, 1914–73:									
Boston	2,182,193,922	394,975,582	1,790,376,494	51,387,847			1,687,008,423		44,452,575
New York	10,734,654,296	1,277,756,492	9,473,153,397	278,477,248			8,874,514,859		252,219,321
Philadelphia	2,301,227,555	332,033,017	1,976,291,277	62,515,393			1,851,282,095		55,921,822
Cleveland	3,370,940,466	478,592,855	2,894,903,488	89,246,980			2,713,179,195		87,561,843
Richmond	2,899,400,892	435,595,288	2,469,120,101	44,595,914			2,365,445,209		52,777,808
Atlanta	2,241,661,167	414,139,990	1,826,637,819	48,944,525			1,701,387,036		67,270,940
Chicago	6,838,952,048	818,626,411	6,023,891,037	128,315,157			5,722,348,775		147,750,854
St. Louis	1,608,404,227	329,030,982	1,280,115,561	32,469,025			1,211,305,680		33,604,278
Minneapolis	902,777,903	216,317,610	688,490,837	22,025,190			637,616,750		23,525,513
Kansas City	1,719,247,821	339,384,757	1,381,039,516	37,439,667			1,297,563,161		39,042,050
Dallas	1,776,027,508	294,106,733	1,482,879,245	46,310,535			1,385,457,562		50,393,678
San Francisco	5,395,701,294	584,763,388	4,816,247,969	105,321,201			4,584,970,229		118,174,867
Total	41,971,189,099	5,915,323,105	36,103,146,741	947,048,682	149,138,300	2,188,893	34,032,078,974	−3,657	[2] 972,695,549

r Revised.

[1] Current earnings less current expenses, plus or minus adjustment for profit and loss items.

[2] The $972,695,549 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 $844,023,350, on Dec. 31, 1973.

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

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9. VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS OF FEDERAL RESERVE BANKS, 1970–73

(Number in thousands; amounts in thousands of dollars)

Operation	1973	1972	1971	1970
NUMBER OF PIECES HANDLED [1]				
Loans	34	6	7	13
Currency received and counted	6,711,253	6,453,899	6,270,732	6,029,373
Currency verified and destroyed	2,613,765	2,246,740	2,446,244	2,174,444
Coin received and counted	15,877,724	14,716,546	13,736,840	13,402,165
Checks handled:				
U.S. Govt. checks	649,424	617,408	628,602	622,144
Postal money orders	168,116	177,257	181,054	183,574
All other [2]	9,976,962	r 8,451,176	7,704,742	7,158,441
Collection items handled:				
U.S.Govt. coupons paid	10,443	11,911	13,523	14,210
All other	25,764	25,720	26,928	27,364
Issues, redemptions, and exchanges of U.S. Govt. securities	278,048	258,947	258,152	276,172
Transfers of funds	11,633	9,494	8,148	7,363
Food stamps redeemed	2,038,092	1,849,647	1,842,026	1,277,007
AMOUNTS HANDLED				
Loans	245,074,209	61,620,130	85,254,860	129,578,588
Currency received and counted	56,837,822	51,535,480	48,783,022	45,718,990
Currency verified and destroyed	14,460,303	12,068,786	13,261,100	12,092,137
Coin received and counted	2,462,923	1,755,727	1,602,994	1,533,972
Checks handled:				
U.S. Govt. checks	263,439,104	235,163,523	211,996,633	208,858,062
Postal money orders	4,814,561	4,718,577	4,806,963	4,736,564
All other [2]	3,845,234,479	3,317,873,664	3,824,868,058	3,330,673,690
Collection items handled:				
U.S. Govt. coupons paid	6,322,475	5,825,599	6,239,761	5,702,894
All other	23,013,309	24,770,140	20,879,111	21,022,409
Issues, redemptions, and exchanges of U.S. Govt. securities	2,617,455,702	2,052,735,038	1,951,122,313	1,433,118,703
Transfers of funds	23,479,745,788	17,916,041,090	14,858,172,824	12,332,001,386
Food stamps redeemed	4,030,228	3,525,383	3,116,904	1,840,100

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[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, 1973

Federal Reserve Bank (including branches)	President	Other officers		Employees [1]		Total	
	Annual salary	Number	Annual salaries	Number	Annual salaries	Number	Annual salaries
Boston	$ 57,750	43	$ 1,089,939	1,729	$ 15,096,760	1,773	$ 16,244,449
New York	90,000	107	3,603,200	5,173	53,818,013	5,281	57,511,213
Philadelphia	51,000	39	968,956	1,392	11,303,541	1,432	12,323,497
Cleveland	55,750	38	920,250	1,596	13,260,322	1,635	14,236,322
Richmond	50,000	61	1,502,400	2,278	18,455,085	2,340	20,007,485
Atlanta	55,750	55	1,246,150	2,588	19,466,431	2,644	20,768,331
Chicago	73,000	59	1,498,225	3,538	29,637,667	3,598	31,208,892
St. Louis	61,600	48	1,164,950	1,642	12,271,789	1,691	13,498,339
Minneapolis	53,600	29	801,800	972	8,312,225	1,002	9,167,625
Kansas City	61,600	48	1,128,425	1,595	12,302,123	1,644	13,492,148
Dallas	54,000	41	982,129	1,372	10,559,170	1,414	11,595,299
San Francisco	70,000	59	1,417,350	2,141	17,863,255	2,201	19,350,605
Total	$734,050	627	$16,323,774	26,016	$222,346,381	26,655	$239,404,205

[1] Includes 1,193 part-time employees.

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11. FEDERAL RESERVE BANK INTEREST RATES, DECEMBER 31, 1973

(Per cent per annum)

Federal Reserve Bank	Loans to member banks—		Loans to all others under last par. Sec. 13 [3]
	Under Secs. 13 and 13a [1]	Under Sec. 10(b) [2]	
Boston	7½	8	[4]9½
New York	↑	↑	9½
Philadelphia			9½
Cleveland			9½
Richmond			[4]9½
Atlanta			[4]9½
Chicago			[4]9½
St. Louis			[4]9½
Minneapolis			[4]9½
Kansas City			[4]9½
Dallas	↓	↓	[4]9½
San Francisco	7½	8	9½

[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 Aug. 14, 1973 (except for Boston, Aug. 23; and Atlanta, Aug. 16), a rate of 7½ per cent was approved on advances to nonmember banks, to be applicable in special circumstances resulting from implementation of changes in Regulation J, which became effective on Nov. 9, 1972.

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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 Nov. 8, 1972
(Deposit intervals are in millions of dollars)

Effective date [1]	Net demand deposits [2]				Time deposits [4] (all classes of banks)		
	Reserve city banks		Country banks		Savings	Other time	
	0–5	Over 5	0–5	Over 5		0–5	Over 5
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.

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Beginning Nov. 9, 1972
(Deposit intervals are in millions of dollars)

Effective date	Net demand deposits [2,6]					Time deposits [4]		
						Savings	Other time	
	0–2	2–10	10–100	100–400	Over 400		0–5	Over 5 [7]
1972—Nov. 9	8	10	12	[8] 16½	17½	[5] 3	[5] 3	[5] 5
Nov. 16	......	......	......	13	......	......	......	......
1973—July 19	......	10½	12½	13½	18	......	......	......
In effect Dec. 31, 1973	8	10½	12½	13½	18	3	3	5

Legal requirements—Dec. 31, 1973:

	Minimum	Maximum
Net demand deposits:		
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 foreign branch deposits computed on the basis of net balances due from domestic offices to their foreign branches above a specified base and against foreign branch loans to U.S. residents, which until June 21, 1973, were also maintained above a specified base. The reserve-free base relating to net balances due from domestic banks to foreign branches is being reduced gradually beginning July 5, 1973, and will be eliminated by Apr. 1974. Loans aggregating $100,000 or less to any U.S. resident are excluded from computations, as are total loans of a bank to U.S. residents if not exceeding $1 million. The applicable reserve percentage, originally 10 per cent, was increased to 20 per cent on Jan. 7, 1971, and effective June 21, 1973, was reduced to 8 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. The reserve-free base related to this type of borrowings is being reduced gradually and will be eliminated by Apr. 1974. For details, see Regulations D and M as described in the Record of Policy Actions of the Board of Governors, on pp. 85, 86, and 91 of this REPORT and in previous 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.

For other notes, see 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, wherever located, 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.

[7] Beginning June 21, 1973, member banks, except as noted below, became subject to a marginal reserve requirement against increases in the aggregate of (a) outstanding time deposits of $100,000 or more, (b) outstanding funds obtained by the bank through issuance by a bank's affiliate of obligations subject to the existing reserve requirements on time deposits, and (c) funds from sales of finance bills. For the period June 21 through Aug. 29, 1973, (a) included only single-maturity time deposits. The requirement applies to balances above a specified base, but it is not applicable to banks that have obligations of these types aggregating less than $10 million. On Dec. 31, 1973, the requirement was 8 per cent. Previous requirements have been: 8 per cent for (a) and (b) from June 21 through Oct. 3, 1973, and for (c) from July 12 through Oct. 3, 1973; 11 per cent from Oct. 4 through Dec. 26, 1973; and 8 per cent beginning Dec. 27, 1973. For details, see Record of Policy Actions of the Board of Governors on pp. 85, 94, 98, 102, 112, and 113 of this REPORT.

[8] 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.

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13. MAXIMUM INTEREST RATES PAYABLE ON TIME AND SAVINGS DEPOSITS

(Per cent per annum)

Nov. 1, 1933—July 19, 1966

Type of deposit	Effective date							
	Nov. 1, 1933	Feb. 1, 1935	Jan. 1, 1936	Jan. 1, 1957	Jan. 1, 1962	July 17, 1963	Nov. 24, 1964	Dec. 6, 1965
Savings deposits:								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Postal savings deposits:[1]								
12 months or more	3	2½	2½	3	4	4	4	4
Less than 12 months					3½	3½		
Other time deposits:[2]								
12 months or more	3	2½	2½	3	4			
6–12 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	

July 20, 1966—June 30, 1973

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 to 1 year				5
1 year to 2 years	5	5	5	5½
2 years or more				5¾
Single-maturity:				
Less than $100,000:				
30 days to 1 year				5
1 year to 2 years	5½	5	5	5½
2 years or more				5¾
$100,000 or more:				
30–59 days			5½	[4]
60–89 days			5¾	[4]
90–179 days	5½	5½	6	[4]
180 days to 1 year			6¼	[4]
1 year or more				[4]

Beginning July 1, 1973

Type of deposit	Effective date	
	July 1, 1973	Nov. 1, 1973
Savings deposits	5	5
Other time deposits (multiple- and single-maturity):		
Less than $100,000:		
30–89 days	5	5
90 days to 1 year	5½	5½
1 year to 2½ years	6	6
2½ years or more	6½	6½
4 years or more in minimum denomination of $1,000	[5]	7¼
$100,000 or more	[4]	[4]

[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.
For additional notes see opposite page.

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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			On convertible bonds			On short sales (T)
		T	U	G	T	U	G	
1937—Nov. 1	1945—Feb. 4	40						50
1945—Feb. 5	July 4	50						50
July 5	1946—Jan. 20	75						75
1946—Jan. 21	1947—Jan. 31	100						100
1947—Feb. 1	1949—Mar. 29	75						75
1949—Mar. 30	1951—Jan. 16	50						50
1951—Jan. 17	1953—Feb. 19	75						75
1953—Feb. 20	1955—Jan. 3	50						50
1955—Jan. 4	Apr. 22	60						60
Apr. 23	1958—Jan. 15	70						70
1958—Jan. 16	Aug. 4	50						50
Aug. 5	Oct. 15	70						70
Oct. 16	1960—July 27	90						90
1960—July 28	1962—July 9	70						70
1962—July 10	1963—Nov. 5	50						50
1963—Nov. 6	1968—Mar. 10	70						70
1968—Mar. 11	June 7	70			50			70
June 8	1970—May 5	80			60			80
1970—May 6	1971—Dec. 3	65			50			65
1971—Dec. 6	1972—Nov. 22	55			50			55
1972—Nov. 24	1974—Jan. 2	65			50			65
Effective Jan. 3, 1974		50			50			50

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.

Notes to Table 13 on opposite page

[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] Maximum rates on single-maturity time deposits in denominations of $100,000 or more have been suspended. Rates that were effective Jan. 21, 1970, and the dates when they were suspended are:

30–59 days	6¼ per cent	June 24, 1970
60–89 days	6½ per cent	
90–179 days	6¾ per cent	May 16, 1973
180 days to 1 year	7 per cent	
1 year or more	7½ per cent	

Rates on multiple-maturity time deposits in denominations of $100,000 or more were suspended July 16, 1973, when the distinction between single- and multiple-maturity deposits was eliminated.

[5] Between July 1 and Oct. 31, 1973, there was no ceiling for 4-year certificates with minimum denomination of $1,000. The amount of such certificates that a bank could issue was limited to 5 per cent of its total time and savings deposits. Sales in excess of that amount were subject to the 6½ per cent ceiling that applies to time deposits maturing in 2½ years or more.

Effective Nov. 1, 1973, a ceiling rate of 7¼ per cent was imposed on certificates maturing in 4 years or more with minimum denomination of $1,000. There is no limitation on the amount of these certificates that banks may issue.

NOTE.—Maximum rates that may be paid by member banks are 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.

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15. FEES AND RATES UNDER REGULATION V ON LOANS GUARANTEED PURSUANT TO DEFENSE PRODUCTION ACT OF 1950, DECEMBER 31, 1973

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.

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6. PRINCIPAL ASSETS AND LIABILITIES, AND NUMBER OF COMMERCIAL AND MUTUAL SAVINGS BANKS, BY CLASS OF BANK, DECEMBER 31, 1973 AND 1972

(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[1]	State	Total	Insured	Noninsured			
December 31, 1973											
Loans and investments, total	786,628	684,306	528,476	398,236	130,240	155,830	149,638	6,192	102,323	88,990	13,333
Loans	572,546	495,454	391,384	293,555	97,828	104,070	99,143	4,927	77,092	67,119	9,973
Investments	214,083	188,851	137,092	104,681	32,411	51,759	50,495	1,265	25,231	21,871	3,360
U.S. Treasury securities	65,271	58,277	41,494	30,962	10,531	16,783	16,467	316	6,994	5,971	1,022
Other securities	148,812	130,574	95,598	73,718	21,880	34,976	34,027	949	18,238	15,900	2,338
Cash assets	120,251	118,276	100,098	70,711	29,387	18,178	16,167	2,010	1,975	1,844	131
Deposits, total	779,513	682,353	527,188	395,767	131,421	155,165	150,170	4,996	97,159	84,883	12,276
Interbank	41,680	41,680	38,924	23,376	15,548	2,756	1,957	798	....	....	....
Other demand	275,401	274,511	211,905	159,189	52,716	62,606	60,636	1,970	890	881	8
Other time	462,431	366,162	276,359	213,202	63,157	89,803	87,576	2,227	96,269	84,001	12,268
Total capital accounts	65,719	58,127	44,741	33,125	11,617	13,386	12,862	524	7,591	6,512	1,078
Number of banks	14,652	14,171	5,735	4,659	1,076	8,436	8,229	207	481	321	160
December 31, 1972											
Loans and investments, total	696,208	599,367	466,169	350,743	115,426	133,198	128,333	4,865	96,841	84,177	12,663
Loans	485,842	415,255	329,930	247,041	82,889	85,325	81,595	3,731	70,587	61,540	9,047
Investments	210,366	184,112	136,239	103,702	32,538	47,873	46,738	1,134	26,254	22,637	3,617
U.S. Treasury securities	74,616	67,028	48,716	37,185	11,530	18,313	17,964	349	7,588	6,386	1,202
Other securities	135,750	117,084	87,524	66,516	21,008	29,559	28,774	785	18,666	16,251	2,415
Cash assets	114,772	113,128	96,566	67,390	29,176	16,562	14,767	1,794	1,644	1,519	124
Deposits, total	708,815	616,596	482,505	359,319	123,186	134,091	130,316	3,775	92,219	80,565	11,653
Interbank	36,314	36,314	34,055	20,525	13,529	2,259	1,865	394	....	....	....
Other demand	265,261	264,466	207,966	153,975	53,992	56,499	54,752	1,747	795	790	5
Other time	407,240	315,816	240,484	184,819	55,665	75,332	73,699	1,634	91,423	79,775	11,649
Total capital accounts	59,618	52,658	41,228	30,342	10,886	11,429	10,938	491	6,960	5,963	997
Number of banks	14,412	13,927	5,704	4,612	1,092	8,223	8,017	206	485	325	160

[1] Excludes one national bank in the Virgin Islands and one in Puerto Rico, which are included in Table 18.

NOTE.—All banks in the United States.

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17. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918–73 AND END OF MONTH 1973

(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.

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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.

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17. MEMBER BANK RESERVES, FEDERAL RESERVE BANK CREDIT, AND RELATED ITEMS—END OF YEAR 1918–73 AND END OF MONTH 1973—*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
1973....	80,495	80,395	100	1,258	3,099	68	1,152	86,072	11,567	400	8,716
1973—											
Jan...	73,394	72,444	950	1,310	2,389	141	1,339	78,573	10,410	400	8,343
Feb..	73,947	73,286	661	1,564	2,795	233	735	79,274	10,410	400	8,378
Mar..	75,650	74,381	1,269	2,048	1,845	165	915	80,623	10,410	400	8,420
Apr..	76,785	75,895	890	1,716	1,195	136	1,128	80,960	10,410	400	8,455
May..	75,368	75,368	....	1,223	2,718	83	809	80,201	10,410	400	8,498
June..	76,471	76,471	....	1,769	2,048	66	1,135	81,489	10,410	400	8,531
July..	78,821	77,750	1,071	2,226	2,170	132	1,307	84,656	10,410	400	8,546
Aug..	77,953	76,984	969	2,842	1,605	84	750	83,234	10,410	400	8,585
Sept..	77,900	76,469	1,431	1,560	2,511	145	974	83,090	10,410	400	8,614
Oct..	80,378	78,606	1,772	2,197	2,655	107	1,265	86,602	11,567	400	8,649
Nov..	79,107	78,203	904	1,915	2,124	71	916	84,133	11,567	400	8,684
Dec...	80,495	80,395	100	1,258	3,099	68	1,152	86,072	11,567	400	8,716

[1] U.S. Govt. securities include Federal agency obligations held under repurchase agreement beginning Dec. 1, 1966, and Federal agency issues bought outright beginning 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] Includes currency and coin—other than gold—issued directly by the Treasury. The largest components are fractional and dollar coins. For details see "Money in Circulation" in the *Treasury Bulletin*.

[7] Presently consists of the coin and paper currency held by the Treasury as well as Treasury gold holdings in excess of the gold that serves as security against gold certificates.

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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 [9,11]
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
72,497	317	2,542	251	1,419	....	2,669	27,060	6,781	35,268	−1,360
64,312	372	2,747	310	674	....	2,576	26,733	6,450	32,098	1,364
64,696	379	2,073	455	633	....	2,574	27,653	5,789	31,305	2,416
65,180	407	2,881	327	696	....	2,648	27,713	5,858	32,079	1,664
66,094	415	4,163	328	773	....	2,753	25,700	5,951	32,271	−448
67,161	394	3,243	289	692	....	2,839	24,892	6,139	31,819	−616
67,771	369	4,039	334	717	....	2,783	24,817	6,226	32,695	−1,540
68,223	323	2,865	280	[12] 821	....	3,005	28,495	6,372	33,554	1,425
68,376	346	848	259	760	....	3,086	28,955	6,347	33,637	1,777
68,217	361	1,624	250	798	....	3,021	28,240	6,516	34,216	624
69,043	342	1,837	426	719	....	3,065	31,787	6,498	34,777	3,592
70,296	317	1,945	420	672	....	3,025	28,108	6,405	34,468	129
72,497	317	2,542	251	1,419	....	2,669	27,060	6,781	35,268	−1,360

[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] 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. Beginning 1973, allowable deficiencies included are (beginning with first statement week of quarter): Q1, $279 million; Q2, $172 million; Q3, $112 million; Q4, $84 million. On Dec. 27, 1973, the amount was reduced to $67 million.

[12] Includes certain deposits of domestic nonmember banks and foreign-owned banking institutions held with member banks and redeposited in full with F.R. Banks in connection with voluntary participation by nonmember institutions in the Federal Reserve System's program of credit restraint.

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.

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18. CHANGES IN NUMBER OF BANKING OFFICES IN THE UNITED STATES DURING 1973 [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, 1972**	**14,413**	**13,928**	**5,705**	**4,613**	**1,092**	**8,017**	**206**	**325**	**160**
	Changes during 1973:									
	New banks [2]	344	344	116	90	26	216	12	...	...
	Suspensions	−3	−3	...	...	...	−3	...	...	...
	Consolidations and absorptions:									
	Banks converted into branches	−91	−87	−44	−36	−8	−42	−1	−4	...
	Other	−10	−10	−4	−2	−2	−6	...	...	...
	Interclass changes:									
	Nonmember to—									
	National	...	...	8	8	...	−8	...	...	...
	State member	...	...	3	...	3	−3	...	...	...
	State member to—									
	National	...	...	...	8	−8	...	...	...	...
	Nonmember	...	...	−28	...	−28	28	...	...	...
	National to nonmember	...	...	−21	−21	...	21	...	...	...
	Noninsured to—									
	Insured	...	...	...	...	...	9	−9	...	...
	National	...	...	1	1	...	...	−1	...	...
	State member	...	...	1	...	1	...	−1	...	...
	Net change	240	244	32	48	−16	212	...	−4	...
	Dec. 31, 1973	**14,653**	**14,172**	**5,737**	**4,661**	**1,076**	**8,229**	**206**	**321**	**160**
BRANCHES AND ADDITIONAL OFFICES	**Dec. 31, 1972 [3]**	**25,769**	**24,414**	**17,778**	**13,810**	**3,968**	**6,591**	**45**	**1,113**	**242**
	Changes during 1973:									
	De novo	1,968	1,833	1,088	874	214	744	1	126	9
	Banks converted	93	89	54	51	3	35	...	4	...
	Discontinued	−80	−79	−63	−42	−21	−16	...	−1	...
	Sale of branch	−7	−7	−15	−10	−5	8	...	...	...

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	Interclass changes:									
	Nonmember to—									
	National			81	81		−81			
	State member			10		10	−10			
	State member to—									
	National				44	−44				
	Nonmember			−90		−90	90			
	National to—									
	State member				−2	2				
	Nonmember			−44	−44		44			
	Facilities reclassified as branches	2	2	2	2					
	Other	−2	−1	−3	−4	1	2		−1	
	Net change	1,974	1,837	1,020	950	70	816	1	128	9
	Dec. 31, 1973 [3]	**27,743**	**26,251**	**18,798**	**14,760**	**4,038**	**7,407**	**46**	**1,241**	**251**
BANKING FACILITIES	**Dec. 31, 1972** [4]	**208**	**208**	**176**	**164**	**12**	**32**			
	Changes during 1973:									
	Established	7	7	4	4		3			
	Discontinued	−10	−10	−9	−9		−1			
	Facilities reclassified as branches	−2	−2	−2	−2					
	Other			−1	−1		1			
	Net change	−5	−5	−8	−8		3			
	Dec. 31, 1973 [4]	**203**	**203**	**168**	**156**	**12**	**35**			

[1] Includes 1 national bank (8 branches) in the Virgin Islands and 1 national bank in Puerto Rico; other banks or branches located in the possessions are excluded.

[2] Exclusive of new banks organized to succeed operating banks.

[3] Excludes banking facilities

[4] Provided at military and other Government establishments through arrangements made by the Treasury.

NOTE.—One noninsured member bank in New York District not shown in above figures.

19. NUMBER OF PAR AND NONPAR BANKING OFFICES, BY FEDERAL RESERVE DISTRICT, DECEMBER 31, 1973

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	383	1,883	383	1,883	212	1,207	171	676	......	....
New York	480	4,121	480	4,121	333	3,596	147	525	......	....
Philadelphia	421	1,935	421	1,935	281	1,305	140	630	......	....
Cleveland	769	2,323	769	2,323	456	1,881	313	442	......	....
Richmond	761	3,808	753	3,807	379	2,376	374	1,431	8	1
Atlanta	1,831	2,078	1,787	2,017	607	1,238	1,180	779	44	61
Chicago	2,644	2,763	2,644	2,763	936	1,783	1,708	980	......	....
St. Louis	1,409	1,182	1,360	1,167	431	587	929	580	49	15
Minneapolis	1,386	337	1,386	337	501	174	885	163	......	....
Kansas City	2,140	460	2,140	460	816	261	1,324	199	......	....
Dallas	1,416	314	1,370	298	642	148	728	150	46	16
San Francisco	422	5,483	422	5,483	143	4,459	279	1,024	......	....
Total	**14,062**	**26,687**	**13,915**	**26,594**	**5,737**	**19,015**	**8,178**	**7,579**	**147**	**93**

20. NUMBER OF PAR AND NONPAR BANKING OFFICES, BY STATE AND OTHER AREA, DECEMBER 31, 1973

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	287	369	287	369	111	264	176	105	......	....
Alaska	10	73	10	73	5	65	5	8	......	....
Arizona	15	405	15	405	4	280	11	125	......	....
Arkansas	255	227	206	212	83	133	123	79	49	15
California	174	3,393	174	3,393	65	2,951	109	442	......	....
Colorado	255	42	255	42	143	24	112	18	......	....
Connecticut	68	518	68	518	26	316	42	202	......	....
Delaware	18	118	18	118	5	4	13	114	......	....
District of Columbia	15	117	15	117	13	108	2	9	......	....
Florida	640	67	640	67	284	12	356	55	......	....
Georgia	436	558	436	558	72	359	364	199	......	....
Hawaii	8	147	8	147	2	10	6	137	......	....
Idaho	24	179	24	179	10	154	14	25	......	....
Illinois	1,167	175	1,167	175	491	103	676	72	......	....
Indiana	409	777	409	777	178	470	231	307	......	....
Iowa	668	369	668	369	148	109	520	260	......	....
Kansas	612	89	612	89	196	49	416	40	......	....
Kentucky	342	424	342	424	91	247	251	177	......	....
Louisiana	245	490	167	413	61	254	106	159	78	77
Maine	44	260	44	260	23	151	21	109	......	....

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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	643	112	643	46	387	66	256	......	....
Massachusetts	153	852	153	852	92	632	61	220	......	....
Michigan	339	1,400	339	1,400	206	1,136	133	264	......	....
Minnesota	739	24	739	24	226	13	513	11	......	....
Mississippi	181	449	181	449	48	201	133	248	......	....
Missouri	683	203	683	203	171	73	512	130	......	....
Montana	149	12	149	12	98	9	51	3	......	....
Nebraska	444	56	444	56	131	34	313	22	......	....
Nevada	8	96	8	96	5	83	3	13	......	....
New Hampshire	80	89	80	89	50	75	30	14	......	....
New Jersey	221	1,251	221	1,251	154	1,069	67	182	......	....
New Mexico	73	177	73	177	41	109	32	68	......	....
New York	299	2,881	299	2,881	230	2,705	69	[1] 176	......	....
North Carolina	89	1,445	89	1,445	28	727	61	718	......	....
North Dakota	169	74	169	74	47	16	122	58	......	....
Ohio	498	1,525	498	1,525	329	1,277	169	248	......	....
Oklahoma	448	91	448	91	209	58	239	33	......	....
Oregon	46	400	46	400	8	281	38	119	......	....
Pennsylvania	419	2,059	419	2,059	280	1,472	139	587	......	....
Rhode Island	16	207	16	207	5	114	11	93	......	....
South Carolina	91	548	83	547	24	356	59	191	8	1
South Dakota	159	108	159	108	60	76	99	32	......	....
Tennessee	320	658	320	658	82	373	238	285	......	....
Texas	1,265	108	1,253	108	590	29	663	79	12	....
Utah	53	171	53	171	16	123	37	48	......	....
Vermont	38	109	38	109	22	43	16	66	......	....
Virginia	271	1,045	271	1,045	157	793	114	252	......	....
Washington	87	638	87	638	29	530	58	108	......	....
West Virginia	210	15	210	15	124	5	86	10	......	....
Wisconsin	616	309	616	309	161	97	455	212	......	....
Wyoming	71	2	71	2	55	1	16	1	......	....
OTHER AREA										
American Samoa [2]	......	1	......	1	......	....	......	1	......	....
Guam [2]	1	7	1	7	......	7	1	....	......	....
Puerto Rico [3]	14	207	14	207	1	19	13	188	......	....
Virgin Islands [3]	8	30	8	30	1	29	7	1	......	....

[1] Includes 18 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 203 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.

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21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1973

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Mountain Bank, Roanoke, Va.	**Mountain Trust Bank,** Roanoke, Va.	315

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21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1973 [1]—*Continued*

Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 1—**The Delta Bank,** Delta, Ohio,	(Newly organized bank; not in operation)		
to merge with **The Peoples Savings Bank Company,** Delta, Ohio	12	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-17-72)

The proposed merger is part of a plan through which The Peoples Savings Bank Company 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 (1-2-73)

The proposal is a transaction to facilitate the acquisition of The Peoples Savings Bank Company, Delta, Ohio, 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.

Name of bank, and type of transaction	Resources (in millions of dollars)	In operation	To be operated
No. 2—**Bank of Kokomo,** Kokomo, Ind.,	(Newly organized bank; not in operation)		
to merge with **Union Bank and Trust Company,** Kokomo, Ind.	97	8	8

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-12-73)

The proposed merger is part of a plan through which Union Bank and Trust Company would become a subsidiary of Ubantco Corporation, a [proposed] 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 Ubantco Corporation, it would have no effect on competition.

For notes see p. 324.

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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 Federal Reserve Bank on Behalf of Board of Governors Under Delegated Authority (3-12-73)

The proposal is a transaction to facilitate the acquisition of Union Bank and Trust Company by Ubantco 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. 3—**North Moore Street Bank,** Arlington, Va.,	(Newly organized bank; not in operation)		
to merge with **The Bank of Arlington,** Arlington, Va.	7	1	1

Summary Report by the Attorney General (1-19-73)

The proposed merger is part of a plan through which The Bank of Arlington would become a subsidiary of Northern Virginia Bankshares Incorporated, 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 Virginia Bankshares Incorporated, it would have no effect on competition.

Basis for Approval by the Board of Governors (3-13-73)

The proposed merger is a transaction by which Northern Virginia Bankshares Incorporated, Arlington, a bank holding company that currently owns 50.88 per cent of the shares of The Bank of Arlington, which opened for business on February 1, 1971, would acquire the remainder of the outstanding shares of stock of the bank. Seven individuals supplied the principal capitalization for The Bank of Arlington, with an informal understanding that when the holding company was established it would buy their stock in the bank. On October 5, 1971, the Board of Governors approved the application by the holding company to acquire 41.96 per cent or more of the voting shares of The Bank of Arlington.

Consummation of the proposed merger, in itself, would have no adverse effect on banking competition or on the convenience and needs of the area. The banking factors are regarded as satisfactory.

For notes see p. 324.

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21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1973 [1]—*Continued*

Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 4—**Alabama Bank of Guin,** Guin, Ala.,	(Newly organized bank; not in operation)		
to merge with **Marion County Banking Company,** Guin, Ala.	19	2	2

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-16-73)

The proposed merger is part of a plan through which Marion County Banking Company would become a subsidiary of The Alabama Financial Group, 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 The Alabama Financial Group, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (3-13-73)

The proposal is a transaction to facilitate the acquisition of Marion County Banking Company by The Alabama Financial Group, Inc., Birmingham, Alabama, 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.

Name of bank, and type of transaction	Resources (in millions of dollars)	In operation	To be operated
No. 5—**Genesee County Bank,** Flint, Mich.,	(Newly organized bank; not in operation)		
to consolidate with **Genesee Merchants Bank & Trust Co.,** Flint, Mich.	469	31	31

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-19-73)

The proposed transaction is part of a plan through which Genesee Merchants Bank & Trust Company would become a subsidiary of United Michigan Corporation, a [proposed] bank holding company. The instant transaction, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by United Michigan Corporation, it would have no effect on competition.

For notes see p. 324.

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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 (4-6-73)

The proposal is a transaction to facilitate the acquisition of Genesee Merchants Bank & Trust Co. by United Michigan Corporation, Flint, 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. 6—**Cheboygan State Bank,** Cheboygan, Mich.,	(Newly organized bank; not in operation)		
to merge with **Cheboygan Bank,** Cheboygan, Mich.	19	3	3

SUMMARY REPORT BY THE ATTORNEY GENERAL (3-6-73)

The proposed merger is part of a plan through which Cheboygan Bank would become a subsidiary of First National 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 First National Financial Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (4-10-73)

The proposal is a transaction to facilitate the acquisition of Cheboygan Bank by First National Financial Corporation, Kalamazoo, Michigan, 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. 7—**New Corpus Christi Bank and Trust,** Corpus Christi, Tex.,	(Newly organized bank; not in operation)		
to acquire the assets and assume the deposit liabilities of **Corpus Christi Bank and Trust,** Corpus Christi, Tex.	135	1	1

For notes see p. 324.

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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 (4-4-73)

The proposed transaction is part of a plan through which Corpus Christi Bank and Trust would become a subsidiary of First City Bancorporation of Texas, Inc., a bank holding company. The instant transaction, 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 City Bancorporation of Texas, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (5-3-73)

The proposal is a transaction to facilitate the acquisition of Corpus Christi Bank and Trust by First City Bancorporation of Texas, Inc., Houston, Texas, a bank holding company.

The proposed transaction 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 operation	To be operated
No. 8—**Menominee State Bank,** Menominee, Mich.,	(Newly organized bank; not in operation)		
to merge with			
The Commercial Bank of Menominee, Menominee, Mich.	13	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-8-73)

The proposed merger is part of a plan through which The Commercial Bank of Menominee would become a subsidiary of First National 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 First National Financial Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (5-3-73)

The proposal is a transaction to facilitate the acquisition of The Commercial Bank of Menominee by First National Financial Corporation, Kalamazoo, Michigan, 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. 324.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 9—**Montana Street State Bank,** El Paso, Tex.,	(Newly organized bank; not in operation)		
to merge with **The Bank of El Paso,** El Paso, Tex.	41	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-4-73)

The proposed merger is part of a plan through which The Bank of El Paso 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 (6-25-73)

The proposal is a transaction to facilitate the acquisition of The Bank of El Paso 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.

Name of bank, and type of transaction	Resources	In operation	To be operated
No. 10—**Bank of Fulton County,** East Point, Ga.,	39	2	8
to merge with **First Georgia Bank,** Atlanta, Ga.	51	6	

SUMMARY REPORT BY THE ATTORNEY GENERAL (2-9-73)

BFC [Bank of Fulton County, hereinafter BFC] and First Georgia [Bank] both operate in Fulton County, which encompasses most of the city of Atlanta. They each hold slightly over 1 per cent of Fulton County deposits. Although the closest offices of the parties are 8.3 miles apart, there is some existing competition between the 2 banks which would be eliminated by the merger.

This is the 3rd merger recently proposed by BFC. In the first two instances, BFC sought to merge with the 2nd and 5th largest banks, respectively, in the Atlanta area. Both proposed mergers were abandoned

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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—*Continued*

after competitive objections were raised by the Department [of Justice]. Unlike the earlier proposals, the instant transaction will combine 2 banks with very small shares of commercial banking business in the Atlanta area.

We conclude that the proposed transaction would not have any adverse competitive impact.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (6-25-73)

Bank of Fulton County (hereinafter East Point Bank) operates 2 offices in East Point, Georgia, and holds 0.9 per cent of total deposits in the Atlanta area, thereby ranking as the 10th largest banking organization in the Atlanta Standard Metropolitan Statistical Area (SMSA). First Georgia Bank (hereinafter Atlanta Bank) operates 6 offices, located in the city of Atlanta, and holds 1.2 per cent of area deposits, thereby ranking as the 8th largest banking organization in the Atlanta SMSA.

Although East Point Bank and Atlanta Bank both operate in the Atlanta banking market, there is no overlap of the primary service areas of the 2 banks; East Point Bank serves southern Fulton County and Atlanta Bank serves northern Atlanta. Neither bank derives a significant amount of deposit or loan business from the service area of the other. It therefore appears that no meaningful competition exists between these banks. East Point Bank is not an aggressive competitor, has exhibited reluctance to expand into Atlanta, and is not considered a likely entrant into Atlanta Bank's service area. Atlanta Bank lacks the financial and managerial resources to expand into other geographic areas. The prospect for meaningful competition developing in the future between these banks appears remote. The resulting bank would hold 2.1 per cent of the total deposits in the Atlanta SMSA and would rank as the 7th largest banking organization in the area. It is the Board's judgment that approval of the proposed formation would have no significant adverse effects on competition in any area of the State.

The financial condition and managerial resources of East Point Bank are generally satisfactory and consistent with approval of the application. The financial condition of Atlanta Bank is considered fair at this time and should improve upon consummation of the proposed transaction.

Consummation of the proposal will result in immediate benefits relating to the convenience and needs of the communities to be served by the resulting bank. The new bank should be able to serve better the banking needs of its customers and to provide a more convenient alternative source of banking services, including certain services that neither bank presently offers. Considerations relating to convenience and needs are regarded as favoring approval of the application.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 11—**Citizens Bank of Poquoson,** Poquoson, Va.,	11	1	2
to merge with **First Virginia Bank of the Peninsula,** Hampton, Va.	3	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-30-73)

Both of these banks are wholly owned subsidiaries of First Virginia Bankshares, Inc. [First Virginia Bankshares Corporation]. The proposed merger is simply a combination of the 2 subsidiary banks into 1. As such, it is merely a corporate reorganization and will have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (6-28-73)

Both Citizens Bank of Poquoson (hereinafter Poquoson Bank) and First Virginia Bank of the Peninsula (hereinafter Peninsula Bank) are wholly owned subsidiaries of First Virginia Bankshares Corporation, Falls Church, Virginia ("First Virginia"), a bank holding company. Poquoson Bank was acquired by First Virginia in January 1970; Peninsula Bank was opened in August 1971 as a subsidiary of First Virginia. As of December 31, 1972, First Virginia, with deposits of $706 million, was the 6th largest banking organization in Virginia, holding 6.6 per cent of total commercial bank deposits in the State.

The relevant geographic market for purposes of the proposed merger is the Newport News–Hampton Standard Metropolitan Statistical Area (SMSA), which includes York County except for the extreme northern sections, in addition to the cities of Newport News and Hampton. Poquoson Bank and Peninsula Bank each operate 1 office in this area; combined, the 2 banks ranked 8th out of 12 banking organizations competing in the relevant market on June 30, 1972, accounting for only 2.7 per cent of total deposits. The merger would have no adverse effect on banking competition.

The financial and managerial resources and the convenience and needs factors are consistent with approval.

For notes see p. 324.

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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. 12—**Texas Bank & Trust Company of Dallas,** Dallas, Tex., *to merge with*	296	1	1
New Texas Bank & Trust Company of Dallas, Dallas, Tex.	(Newly organized bank; not in operation)		

SUMMARY REPORT BY THE ATTORNEY GENERAL (4-4-73)

The proposed merger is part of a plan through which Texas Bank & Trust Company of Dallas would become a subsidiary of First City Bancorporation of Texas, 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 City Bancorporation, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (6-29-73)

The proposal is a transaction to facilitate the acquisition of Texas Bank & Trust Company of Dallas by First City Bancorporation of Texas, Inc., Houston, 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.

Name of bank, and type of transaction	Resources (in millions of dollars)	In operation	To be operated
No. 13—**United Virginia Bank/Citizens of South Boston,** South Boston, Va., *to merge with*	(Newly organized bank; not in operation)		
Citizens Bank of South Boston, South Boston, Va.	16	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-30-73)

The proposed merger is part of a plan through which Citizens Bank of South Boston would become a subsidiary of United Virginia Bankshares Incorporated, 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 United Virginia Bankshares Incorporated, it would have no effect on competition.

For notes see p. 324.

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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 FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (7-16-73)

The proposal is a transaction to facilitate the acquisition of Citizens Bank of South Boston by United Virginia Bankshares Incorporated, 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. 14—**The Cleveland Trust Company of Lorain,** Lorain, Ohio,	(Newly organized bank; not in operation)		
to acquire certain assets of and assume certain liabilities of **The Cleveland Trust Company,** Cleveland, Ohio	30	[3] 1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (7-20-73)

CleveTrust Corporation, Cleveland, Ohio, is a proposed bank holding company that requests permission to acquire The Cleveland Trust Company, Cleveland, Ohio. In addition, the corporation has formed a new bank—The Cleveland Trust Company of Lorain—which would acquire the assets and assume the liabilities that are attributable to The Cleveland Trust Company's branch office located in Lorain County.

At the present time, Ohio banks may open *de novo* branches in the county in which the bank is headquartered. By virtue of a grandfather clause, The Cleveland Trust Company has branches in Lorain and Lake Counties as well as in its home office county of Cuyahoga. By converting the Lorain Branch of The Cleveland Trust Company into a bank, the proposed holding company will have a vehicle through which to establish additional offices in Lorain County. However, any additional offices will have to receive the prior approval of the State Banking Department and of the Board of Governors.

Consummation of the proposed acquisition of the Lorain County Branch of The Cleveland Trust Company by The Cleveland Trust Company of Lorain would not have adverse competitive effects nor significantly affect the convenience and needs of the area.

For notes see p. 324.

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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—**The Cleveland Trust Company of Painesville,** Painesville, Ohio, *to acquire certain assets of and assume certain liabilities of*	(Newly organized bank; not in operation)		
The Cleveland Trust Company, Cleveland, Ohio	72	[3] 2	2

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (7-20-73)

CleveTrust Corporation, Cleveland, Ohio, is a proposed bank holding company that requests permission to acquire The Cleveland Trust Company, Cleveland, Ohio. In addition, the corporation has formed a new bank—The Cleveland Trust Company of Painesville—that would acquire the assets and assume the liabilities attributable to The Cleveland Trust Company's 2 branch offices located in Lake County.

At the present time, Ohio banks may open *de novo* branches in the county in which the bank is headquartered. By virtue of a grandfather clause, The Cleveland Trust Company has branches in Lorain and Lake Counties as well as in its home office county of Cuyahoga. By converting the Lake County branches of The Cleveland Trust Company into a bank, the proposed holding company will have legal grounds for establishing additional offices in Lake County. However, any additional offices will have to receive the prior approval of the State Banking Department and of the Board of Governors.

Consummation of the proposed acquisition of the Lake County branches of The Cleveland Trust Company by The Cleveland Trust Company of Painesville would not have adverse competitive effects nor significantly affect the convenience and needs of the area.

Name of bank, and type of transaction	Resources (in millions of dollars)	In operation	To be operated
No. 16—**The Cuyahoga Bank,** Cleveland, Ohio, *to merge with*	(Newly organized bank; not in operation)		
The Cleveland Trust Company, Cleveland, Ohio	3,097	83	80

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

For notes see p. 324.

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Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (7-20-73)

The proposal is a transaction to facilitate the acquisition of The Cleveland Trust Company by CleveTrust 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.

Name of bank, and type of transaction	Resources	In operation	To be operated
No. 17—**Mountain Bank,** Roanoke, Va.,	(Newly organized bank; not in operation)		
to merge with **Mountain Trust Bank,** Roanoke, Va.	94	9	9

SUMMARY REPORT BY THE ATTORNEY GENERAL
(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (8-8-73)

The proposal is a transaction to facilitate acquisition of Mountain Trust Bank by First & Merchants Corporation, 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.

Name of bank, and type of transaction	Resources	In operation	To be operated
No. 18—**Peoples Bank of Stark County,** Canton, Ohio,	(Newly organized bank; not in operation)		
to merge with **The Peoples-Merchants Trust Co.,** Canton, Ohio	137	9	9

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-3-73)

The proposed merger is part of a plan through which Peoples-Merchants Trust Co. would become a subsidiary of Union Bancshares Company, 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 Bancshares Company, it would have no effect on competition.

For notes see p. 324.

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21. DESCRIPTION OF EACH MERGER, CONSOLIDATION, ACQUISITION OF ASSETS OR ASSUMPTION OF LIABILITIES APPROVED BY THE BOARD OF GOVERNORS DURING 1973 [1]—*Continued*

Name of bank, and type of transaction[2] (in chronological order of determination)	Resources (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (8-16-73)

The proposal is a transaction to facilitate the acquisition of The Peoples-Merchants Trust Co. by Union Bancshares Company, Steubenville, 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. 19—**FBT Bank**, Fremont, Mich.,	(Newly organized bank, not in operation)		
to consolidate with **Fremont Bank and Trust Company**, Fremont, Mich.	16	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-31-73)

The proposed consolidation is part of a plan through which Fremont 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 (9-12-73)

The proposal is a transaction to facilitate the acquisition of Fremont Bank and Trust Company by Old Kent Financial Corporation, Grand Rapids, Michigan, a 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. 20—**West Branch Bank**, West Branch, Mich.,	(Newly organized bank; not in operation)		
to consolidate with **The State Savings Bank of West Branch**, West Branch, Mich.	21	1	1

For notes see p. 324.

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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 (7-19-73)

The proposed consolidation is part of a plan through which The State Savings Bank of West Branch would become a subsidiary of Peoples National Corporation, a [proposed] bank holding company. The instant consolidation, 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 National Corporation, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (9-26-73)

The proposal is a transaction to facilitate the acquisition of The State Savings Bank of West Branch by Peoples National Corporation, Bay City, 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. 21—**Rice Avenue State Bank,** Bellaire, Tex.,	(Newly organized bank not in operation)		
to merge with			
First State Bank of Bellaire, Bellaire, Tex.	75	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-19-73)

The proposed merger is part of a plan through which First State Bank of Bellaire 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 (10-1-73)

The proposal is a transaction to facilitate the acquisition of First State Bank of Bellaire 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. 324.

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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. 22—**PSB Bank,** Holland, Mich., *to consolidate with*	(Newly organized bank; not in operation)		
The Peoples State Bank of Holland, Holland, Mich.	59	6	6

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-11-73)

The proposed transaction is part of a plan through which The Peoples State Bank of Holland would become a subsidiary of Old Kent Financial Corporation, a bank holding company. The instant transaction, 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 THE BOARD OF GOVERNORS (10-12-73)

The proposal is a transaction to facilitate the acquisition of The Peoples State Bank of Holland by Old Kent Financial Corporation, Grand Rapids, Michigan, a 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 operation	To be operated
No. 23—**The Peoples Savings Bank Company,** Delta, Ohio, *to merge with*	12	1	2
The Farmers State Bank of Lyons Ohio, Lyons, Ohio	4	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (9-20-73)

The parties to this merger are situated about 13 miles apart with no competitive alternatives in the intervening area. While 2 BancOhio Corporation subsidiaries are located in the adjacent counties of Henry and Wood, the application indicates that neither subsidiary derives any substantial deposit or loan volume from the area served by Farmers Bank [The Farmers State Bank of Lyons Ohio]. Thus, while the proposed merger may eliminate a limited amount of existing competition between Peoples

For notes see p. 324.

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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—*Continued*

[The Peoples Savings Bank Company] and Farmers Bank, it does not appear that the proposed transaction would substantially increase banking concentration in any relevant market.

Therefore, we conclude that the proposed merger would not have a substantial competitive impact.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10-29-73)

The Peoples Savings Bank Company (hereinafter Delta Bank) is a subsidiary of BancOhio Corporation, Columbus, Ohio, the second largest banking organization in Ohio, controlling approximately 9 per cent of total deposits of commercial banks in the State. Delta Bank operates 1 banking office located in Delta, Ohio, and holds approximately 11 per cent of total deposits of commercial banks in the Fulton County, Ohio, banking market (which includes most of Fulton County, Ohio, and portions of Lenawee County, Michigan) and is the 4th largest of 8 banks operating in that market. As a result of consummation of the proposed merger of Delta Bank with The Farmers State Bank of Lyons Ohio (hereinafter Lyons Bank), the parent holding company's share of total deposits in the State would increase by only .01 percentage points and Delta Bank's share of deposits in the relevant market would increase to 15 per cent. Delta Bank will become the 3rd largest bank in this market.

Lyons Bank operates 1 banking office in the predominantly rural north central portion of the Fulton County banking market and is the 7th largest of 8 banks operating in that market. The single office of Lyons Bank is located approximately 13 miles from Delta Bank.

Although located in the same banking market, little competition exists between Delta Bank and Lyons Bank as their service areas do not overlap to a significant extent. Delta Bank and Lyons Bank are permitted by Ohio law to branch into each other's service area. However, the record indicates little likelihood of such expansion occurring in the foreseeable future. The population to banking office ratio of the area served by Lyons Bank is significantly below the average for Fulton County and far below the average for the State. Although 2 bank subsidiaries of BancOhio Corporation are located in counties adjacent to Fulton County, no substantial competition exists between these banks and Delta Bank or Lyons Bank. Accordingly, the Board concludes that consummation of the proposed acquisition would have only a slightly adverse effect on existing competition in the Fulton banking market. The proposed merger, however, by increasing the competitive capability of Delta Bank, may result in increasing future competition among the largest banks in the Fulton banking market.

The financial and managerial resources of both Delta Bank and Lyons Bank are satisfactory. Consequently, banking factors are consistent with

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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—*Continued*

approval of the application. It is proposed that consummation of the proposal herein will result in an increase in the range of banking services available to customers now served by Lyons Bank. Delta Bank presently provides a wide range of consumer savings accounts, instalment and commercial loan services and credit-card services, some of which are not offered by Lyons Bank. These services would become available upon consummation of this proposal. In addition, through its parent holding company, Delta Bank presently offers farm equipment leasing services that could become more readily available to residents of the Lyons area upon consummation of the proposed merger. Considerations relating to the convenience and needs of the communities to be served are consistent with approval of the application and lend some weight thereto.

No. 24—**Interim Bank of Oxford,** Oxford, Ala.,	(Newly organized bank; not in operation)		
to acquire the assets and assume the deposit liabilities of **The First State Bank of Oxford,** Oxford, Ala.	16	3	3

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-15-73)

The proposed acquisition is part of a plan through which The First State Bank of Oxford would become a subsidiary of Central Bancshares of the South, Inc., a bank holding company. The instant proposal, however, would merely combine an existing bank with a nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Central Bancshares of the South, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-26-73)

The proposal is a transaction to facilitate the acquisition of The First State Bank of Oxford by Central Bancshares of the South, Inc., Birmingham. Alabama, a bank holding company.

The proposed acquisition 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. 324.

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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. 25—**The Peoples Bank and Trust Company,** Selma, Ala., *to acquire the assets and assume the deposit liabilities of*	46	1	2
The Peoples Bank at Selma Mall, National Association, Selma, Ala.	2	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-31-73)

The parties to this acquisition are located about 2 miles apart in the city of Selma (population approximately 28,000). Thus, it appears that the proposed acquisition would eliminate some existing competition in the concentrated Selma market. However, in view of the small absolute size of the bank to be acquired, we conclude that the effect of the transaction on existing competition will not be significantly adverse.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-27-73)

The Peoples Bank and Trust Company (hereinafter Applicant Bank) and The Peoples Bank at Selma Mall, National Association (hereinafter PBSM), are both located in Dallas County, which is the relevant banking market. Applicant Bank has approximately 34 per cent of total deposits in the market, while PBSM has a market share of a little more than 1 per cent. However, even though Applicant Bank and PBSM are in the same banking market, there has been little competition between them since the latter bank was opened in 1972. This has been due to the nature of their relationship: PBSM was founded by principal shareholders of Applicant Bank and 11 officers and directors of Applicant Bank own about 90 per cent of the shares of PBSM. Both banks also share common management; the chairman of the board, president, vice president, and directors hold comparable positions in both banks. On the facts before the Board of Governors, including the strong existing ties between these banks, there is little probability that disaffiliation between them will occur in the reasonably foreseeable future. The Board therefore concludes that competitive considerations are consistent with approval of the application.

The financial and managerial resources and future prospects of Applicant Bank and PBSM appear to be generally satisfactory and are consistent with approval of the application. Considerations relating to the convenience and needs of the community are also consistent with approval.

For notes see p. 324.

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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. 26—**OPTS Bank**, Oak Park, Ill., *to merge with*	(Newly organized bank; not in operation)		
Oak Park Trust & Savings Bank, Oak Park, Ill.	148	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-26-73)

The proposed merger is part of a plan through which Oak Park Trust & Savings Bank would become a subsidiary of Oak Park Bancorp, Inc., a [proposed] 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 Oak Park Bancorp, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (11-29-73)

The proposal is a transaction to facilitate the acquisition of Oak Park Trust & Savings Bank by Oak Park Bancorp, Inc., 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.

Name of bank, and type of transaction	Resources	In operation	To be operated
No. 27—**Brownsburg State Bank**, Brownsburg, Ind., *to merge with*	12	1	2
Hendricks County Bank and Trust Company, Plainfield, Ind.	6	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-20-73)

The applicant banks are situated about 10 miles apart with some competitive alternatives in the intervening area. It appears that the proposed transaction would eliminate only a limited amount of existing competition. Accordingly, we conclude that the proposed merger would not have a substantial competitive impact.

For notes see p. 324.

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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 FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (12-10-73)

Brownsburg State Bank (hereinafter Applicant Bank) is a unit bank and the only bank located in the town of Brownsburg in eastern Hendricks County, Indiana. The county adjoins Marion County (Indianapolis), and Applicant Bank ranks as the 24th largest among 41 banks in the banking market approximated by the Indianapolis Standard Metropolitan Statistical Area (SMSA), with 0.36 per cent of the area's deposits. Hendricks County Bank and Trust Company (hereinafter Hendricks Bank) is the smaller of 2 unit banks in Plainfield. Hendricks Bank also competes in the Indianapolis banking market, where it is currently the 38th largest bank with 0.15 per cent of total deposits. Upon consummation of the proposed merger, the resulting bank would rank as the 19th largest bank and account for only about one-half of 1 per cent of market area deposits.

The offices of Applicant Bank and Hendricks Bank are located only about 10 miles apart. The service areas of the 2 banks do not overlap, however, and no significant competition exists between the banks at the present time. Moreover, it appears that the proposed merger would not foreclose substantial potential competition given the presence of intervening banking offices and the small size of the resulting bank relative to the market.

Based upon all the facts revealed in the record, it is concluded that the merger would not have an adverse effect on competition in any relevant area. Convenience and needs considerations are consistent with approval. Financial and managerial resources of the participating banks are considered satisfactory.

No. 28—**RI Bank,** Rock Island, Ill.,	(Newly organized bank; not in operation)		
to merge with **Rock Island Bank and Trust Company,** Rock Island, Ill.	78	2	2

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-26-73)

The proposed merger is part of a plan through which Rock Island Bank and Trust Company would become a subsidiary of Financial Services Corporation of the Midwest, a [proposed] bank holding company. The instant merger, however, would merely combine an existing bank with a

For notes see p. 324.

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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—*Continued*

nonoperating institution; as such, and without regard to the acquisition of the surviving bank by Financial Services Corporation of the Midwest, it would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (12-10-73)

The proposal is a transaction to facilitate the acquisition of Rock Island Bank and Trust Company by Financial Services Corporation of the Midwest, 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.

Name of bank	Resources	In operation	To be operated
No. 29—**New Victoria Bank and Trust Company,** Victoria, Tex.,	(Newly organized bank; not in operation)		
to merge with			
Victoria Bank and Trust Company, Victoria, Tex.	131	1	1

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-6-73)

The proposed merger is part of a plan through which Victoria Bank and Trust Company would become a subsidiary of Victoria Bankshares, Inc., a [proposed] 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 Victoria Bankshares, Inc., it would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (12-27-73)

The proposal is a transaction to facilitate the acquisition of Victoria Bank and Trust Company by Victoria Bankshares, Inc., Victoria, Texas, 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.

[1] As required by Section 18(c) of the Federal Deposit Insurance Act, all of the transactions that were approved by the Board are described in this table.

[2] Each transaction was proposed to be effected under the charter of the first-named bank.

[3] Although The Cleveland Trust Company actually has 83 offices in operation, only the office in Lorain County and the 2 offices in Lake County are shown here, because they are the ones to be acquired by the new banks—The Cleveland Trust Company of Lorain and The Cleveland Trust Company of Painesville, respectively.

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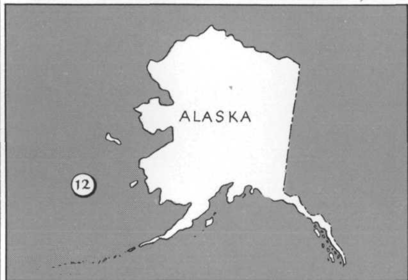
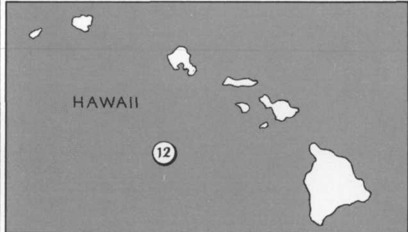
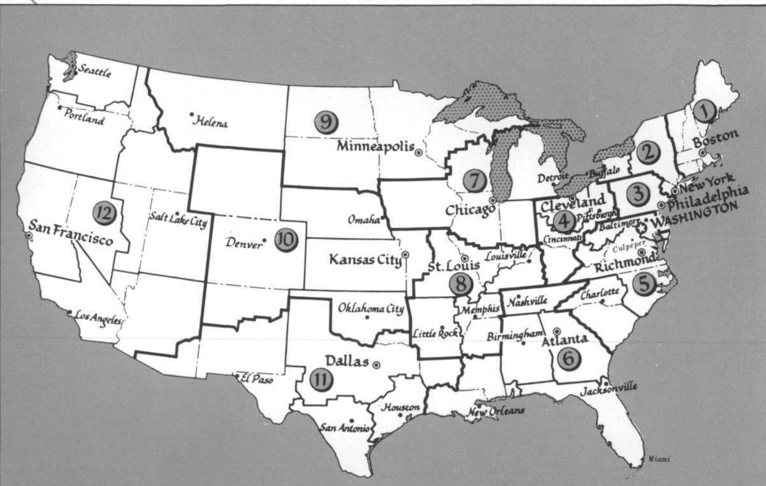
THE FEDERAL RESERVE SYSTEM

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 Bank Facilities

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Federal Reserve Directories and Meetings

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BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(December 31, 1973)

	Term expires
ARTHUR F. BURNS, of New York, *Chairman**	January 31, 1984
GEORGE W. MITCHELL, of Illinois, *Vice Chairman**	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, of Nebraska	January 31, 1978

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J. CHARLES PARTEE, *Managing Director for Research and Economic Policy*
**ROBERT SOLOMON, *Adviser to the Board*
ROBERT L. CARDON, *Assistant to the Board*
JOSEPH R. COYNE, *Assistant to the Board*
JOHN J. HART, *Special Assistant to the Board*
FRANK O'BRIEN, JR., *Special Assistant to the Board*
JOHN S. RIPPEY, *Special Assistant to the Board*

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KENNETH B. WILLIAMS, *Adviser*

* The designations as the Chairman and the Vice Chairman expire January 31, 1974, and April 30, 1977, respectively, unless the services of these members of the Board shall have terminated sooner.
** On leave of absence.

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JOHN M. DENKLER, *Assistant Controller*

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WARREN N. MINAMI, *Assistant Director*
RICHARD S. WATT, *Assistant Director*

* On loan from Federal Reserve Bank of Boston.

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FEDERAL OPEN MARKET COMMITTEE

(December 31, 1973)

MEMBERS

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ALFRED HAYES, *Vice Chairman* (Elected by Federal Reserve Bank of New York)

JOHN J. BALLES (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)

ANDREW F. BRIMMER (Board of Governors)

JEFFREY M. BUCHER (Board of Governors)

J. DEWEY DAANE (Board of Governors)

DARRYL R. FRANCIS (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)

ROBERT C. HOLLAND (Board of Governors)

ROBERT P. MAYO (Elected by Federal Reserve Banks of Cleveland and Chicago)

GEORGE W. MITCHELL (Board of Governors)

FRANK E. MORRIS (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)

JOHN E. SHEEHAN (Board of Governors)

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MURRAY ALTMANN, *Assistant Secretary*

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EDWARD G. GUY, *Deputy General Counsel*

JOHN NICOLL, *Assistant General Counsel*

J. CHARLES PARTEE, *Senior Economist*

STEPHEN H. AXILROD, *Economist* (Domestic Finance)

*ROBERT SOLOMON, *Economist* (International Finance)

LEONALL C. ANDERSEN, *Associate Economist*

RALPH C. BRYANT, *Associate Economist*

ROBERT W. EISENMENGER, *Associate Economist*

GEORGE GARVY, *Associate Economist*

LYLE E. GRAMLEY, *Associate Economist*

JOHN E. REYNOLDS, *Associate Economist*

KARL A. SCHELD, *Associate Economist*

KENT O. SIMS, *Associate Economist*

ALAN R. HOLMES, *Manager, System Open Market Account*

CHARLES A. COOMBS, *Special Manager, System Open Market Account*

PETER D. STERNLIGHT, *Deputy Manager, System Open Market Account*

DAVID E. BODNER, *Deputy Special Manager, System Open Market Account*

Meetings of the Federal Open Market Committee are generally held at monthly intervals. (See Record of Policy Actions taken by the Committee in 1973 on pp. 128–223 of this REPORT.)

* On leave of absence.

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FEDERAL ADVISORY COUNCIL

(December 31, 1973)

MEMBERS

District No. 1—JAMES F. ENGLISH, JR., Chairman of the Board, Connecticut Bank and Trust Company, Hartford, Conn.

District No. 2—GABRIEL HAUGE, Chairman of the Board, Manufacturers Hanover Trust Company, 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—CLAIR E. FULTZ, President, Huntington Bancshares, Inc., Columbus, Ohio

District No. 5—THOMAS I. STORRS, President, NCNB Corporation and North Carolina National Bank, Charlotte, N.C.

District No. 6—HARRY HOOD BASSETT, Chairman of the Board, The First National Bank of Miami, Miami, Fla.

District No. 7—ALLEN P. STULTS, Chairman of the Board, American National Bank and Trust Company of Chicago, Chicago, Ill.

District No. 8—DAVID H. MOREY, Chairman and Chief Executive Officer, The Boatmen's National Bank of St. Louis, St. Louis, Mo.

District No. 9—CHESTER C. LIND, President and Chief Executive Officer, 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, Neb.

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—H. A. ROGERS, President, Peoples National Bank of Washington, Seattle, Wash.

OFFICERS

G. MORRIS DORRANCE, JR., *President* HARRY HOOD BASSETT, *Vice President*

HERBERT V. PROCHNOW, *Secretary*

WILLIAM J. KORSVIK, *Assistant Secretary*

EXECUTIVE COMMITTEE

G. MORRIS DORRANCE, JR., *ex officio* HARRY HOOD BASSETT, *ex officio*

JAMES F. ENGLISH, JR. DAVID H. MOREY

MORRIS F. MILLER

Meetings of the Federal Advisory Council were held on February 1–2, May 3–4, September 6–7, and November 1–2, 1973. The Board of Governors met with the Council on February 2, May 4, September 7, and November 2. The Council is required by law to meet in Washington at least four times each year and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

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FEDERAL RESERVE BANKS AND BRANCHES

(December 31, 1973)

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	Frank R. Milliken
Philadelphia	John R. Coleman	Edward J. Dwyer
Cleveland	Horace A. Shepard	J. Ward Keener
Richmond	Robert W. Lawson, Jr.	Stuart Shumate
Atlanta	John C. Wilson	H. G. Pattillo
Chicago	William H. Franklin	Peter B. Clark
St. Louis	Frederic M. Peirce	Sam Cooper
Minneapolis	David M. Lilly	Bruce B. Dayton
Kansas City	Robert W. Wagstaff	Robert T. Person
Dallas	Chas. F. Jones	John Lawrence
San Francisco	O. Meredith Wilson	Joseph F. Alibrandi

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 meetings, attended also by Deputy Chairmen of the Reserve Banks, were held in Washington on June 21 and on November 29 and 30, 1973.

Mr. David M. Lilly, Chairman of the Federal Reserve Bank of Minneapolis, who was elected Chairman of the Conference and of its Executive Committee in December 1972, served in that capacity until the close of the 1973 meetings. Mr. Robert W. Wagstaff, Chairman of the Federal Reserve Bank of Kansas City, and Mr. John C. Wilson, Chairman of the Federal Reserve Bank of Atlanta, served with Mr. Lilly as members of the Executive Committee; Mr. Wagstaff also served as Vice Chairman of the Conference.

On November 30, 1973, Mr. Wagstaff was elected Chairman of the Conference and of its Executive Committee to serve for the succeeding year; Mr. Roswell L. Gilpatric, Chairman of the Federal Reserve Bank of New York, was elected Vice Chairman of the Conference and a member of the Executive Committee; and Mr. William H. Franklin, Chairman of the Federal Reserve Bank of Chicago, was elected as the other member of the Executive Committee.

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DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either five or seven directors, of whom a majority are appointed by the Board of Directors of the parent Federal Reserve Bank, and the others are appointed by the Board of Governors of the Federal Reserve System.

DIRECTORS	District 1—BOSTON	*Term expires Dec. 31*
Class A:		
Ralph A. McIninch	President, Merchants National Bank of Manchester, Manchester, N.H.	1973
Mark C. Wheeler	President, New England Merchants National Bank, Boston, Mass.	1974
William M. Honey	President, The Martha's Vineyard National Bank, Vineyard Haven, Mass.	1975
Class B:		
G. William Miller	President, Textron, Providence, R.I.	1973
W. Gordon Robertson	General Trustee, Bangor, Maine	1974
Alfred W. Van Sinderen	President, The Southern New England Telephone Co., New Haven, Conn.	1975
Class C:		
John M. Fox	President and Chief Executive Officer, H. P. Hood & Sons, Charlestown, Mass.	1973
James S. Duesenberry	Chairman, Department of Economics, Harvard University, Cambridge, Mass.	1974
Louis W. Cabot	Chairman of the Board, Cabot Corporation, Boston, Mass.	1975

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DIRECTORS—*Cont.*

District 2—NEW YORK

		Term expires Dec. 31
Class A:		
David C. Rockefeller	Chairman of the Board, The Chase Manhattan Bank, N.A., New York, N.Y.	1973
Norman Brassler	Chairman of the Board and Chief Executive Officer, New Jersey Bank, N.A., Passaic, N.J.	1974
Newman E. Wait, Jr.	President, Adirondack Trust Company, Saratoga Springs, N.Y.	1975
Class B:		
Maurice F. Granville	Chairman of the Board, Texaco, Inc., New York, N.Y.	1973
William S. Sneath	President, Union Carbide Corporation, New York, N.Y.	1974
Jack B. Jackson	President, J. C. Penney Company, Inc., New York, N.Y.	1975
Class C:		
Alan J. Pifer	President, Carnegie Corporation of New York, New York, N.Y.	1973
Roswell L. Gilpatric	Partner, Cravath, Swaine & Moore, Attorneys, New York, N.Y.	1974
Frank R. Milliken	President, Kennecott Copper Corporation, New York, N.Y.	1975

BUFFALO BRANCH

Appointed by Federal Reserve Bank:		
William B. Anderson	President, The First National Bank of Jamestown, 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
Claude F. Shuchter	President and Chief Executive Officer, Manufacturers and Traders Trust Company, Buffalo, N.Y.	1975
Appointed by Board of Governors:		
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
Donald Nesbitt	Owner-Operator, Silver Creek Farms, Albion, N.Y.	1975

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DIRECTORS—*Cont.*

District 3—PHILADELPHIA

		Term expires Dec. 31
Class A:		
Richard A. Herbster	President, Lewistown Trust Company, Lewistown, Pa.	1973
John C. Tuten	Chairman and Chief Executive Officer, National Central Bank and National Central Financial Corp., Lancaster, Pa.	1974
John H. Hassler	President, The City National Bank and Trust Company of Salem, Salem, N.J.	1975
Class B:		
William S. Masland	President, C. H. Masland and Sons, Carlisle, Pa.	1973
C. Graham Berwind, Jr.	President and Chief Executive Officer, Berwind Corporation, Philadelphia, Pa.	1974
Bernard D. Broeker	Executive Vice President, Bethlehem Steel Corporation, Bethlehem, Pa.	1975
Class C:		
John R. Coleman	President, Haverford College, Haverford, Pa.	1973
E. W. Robinson, Jr.	President, Provident Home Industrial Mutual Life Insurance Co., Philadelphia, Pa.	1974
Edward J. Dwyer	Chairman and Chief Executive Officer, ESB Incorporated, Philadelphia, Pa.	1975

District 4—CLEVELAND

Class A:		
Edward W. Barker	Chairman and Chief Executive Officer, First National Bank of Middletown, Middletown, Ohio	1973
A. Bruce Bowden	Retired Vice Chairman of the Board, Mellon Bank, N. A., Pittsburgh, Pa.	1974
David L. Brumback, Jr.	President, Van Wert National Bank, Van Wert, Ohio	1975
Class B:		
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
Rene C. McPherson	Chairman and Chief Executive Officer, Dana Corporation, Toledo, Ohio	1975

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DIRECTORS—*Cont.*	District 4—CLEVELAND—Continued	*Term expires Dec. 31*
Class C:		
J. Ward Keener	Retired 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
Otis A. Singletary	President, University of Kentucky, Lexington, Ky.	1975

CINCINNATI BRANCH

Appointed by Federal Reserve Bank:		
William S. Rowe	President, The Fifth Third Bank, Cincinnati, Ohio	1973
E. Paul Williams	President, Second National Bank, Ashland, Ky.	1974
Paul W. Christensen, Jr.	President, The Cincinnati Gear Company, Cincinnati, Ohio	1975
Robert E. Hall	President, The First National Bank and Trust Company, Troy, Ohio	1975
Appointed by Board of Governors:		
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
Phillip R. Shriver	President, Miami University, Oxford, Ohio	1975

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank:		
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
Robinson F. Barker	Chairman of the Board and Chief Executive Officer, PPG Industries, Inc., Pittsburgh, Pa.	1975
Jerry A. Halverson	President, The First National Bank and Trust Co. of Wheeling, Wheeling, W. Va.	1975

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DIRECTORS—*Cont.* **District 4—CLEVELAND—Continued** *Term expires Dec. 31*

PITTSBURGH BRANCH—*Continued*

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Robert E. Kirby	President, Industry and Defense Company, Westinghouse Electric Corporation, Pittsburgh, Pa.	1973
Richard M. Cyert	President, Carnegie-Mellon University, Pittsburgh, Pa.	1974
Douglas Grymes	President, Koppers Company, Inc., Pittsburgh, Pa.	1975

District 5—RICHMOND

Class A:

Name	Position	Term expires Dec. 31
Thomas P. McLachlen	President, McLachlen National Bank, Washington, D.C.	1973
Edward N. Evans	President, Farmers & Merchants National Bank of Cambridge, Cambridge, Md.	1974
John H. Lumpkin	Chairman and Chief Executive Officer, The South Carolina National Bank, Columbia, S.C.	1975

Class B:

Name	Position	Term expires Dec. 31
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
Osby L. Weir	General Manager, Metropolitan Washington-Baltimore Area, Sears, Roebuck and Co., Bethesda, Md.	1975

Class C:

Name	Position	Term expires Dec. 31
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
Robert W. Lawson, Jr.	Senior Partner, Charleston Office, Steptoe & Johnson, Attorneys, Charleston, W. Va.	1975

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DIRECTORS—*Cont.* **District 5—RICHMOND—Continued** *Term expires Dec. 31*

BALTIMORE BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
J. Stevenson Peck	Chairman of the Board, Union Trust Company of Maryland, Baltimore, Md.	1973
James J. Robinson	Executive Vice President, Bank of Ripley, Ripley, W. Va.	1973
J. Pierre Bernard	Chairman of the Board, The Annapolis Banking and Trust Company, Annapolis, Md.	1974
J. R. Chaffinch, Jr.	President, The Denton National Bank, Denton, Md.	1975

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
John H. Fetting, Jr.	President, A. H. Fetting Company, Baltimore, Md.	1973
James G. Harlow	President, West Virginia University, Morgantown, W. Va.	1974
David W. Barton, Jr.	President, Barton-Gillet Company, Baltimore, Md.	1975

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
H. Phelps Brooks, Jr.	President, The Peoples National Bank, Chester, S.C.	1973
C. C. Cameron	Chairman of the Board and President, First Union National Bank of North Carolina, Charlotte, N.C.	1973
L. D. Coltrane, III	President, The Concord National Bank, Concord, N.C.	1974
William W. Bruner	Chairman and President, First National Bank of South Carolina, Columbia, S.C.	1975

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Charles W. DeBell	General Manager, North Carolina Works, Western Electric Company, Inc., Winston-Salem, N.C.	1973
Charles F. Benbow	Senior Vice President, R. J. Reynolds Industries, Inc., Winston-Salem, N.C.	1974
Robert C. Edwards	President, Clemson University, Clemson, S.C.	1975

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DIRECTORS—*Cont.*

District 6—ATLANTA

		Term expires Dec. 31
Class A:		
A. L. Ellis	Chairman of the Board, First National Bank, Tarpon Springs, Fla.	1973
Jack P. Keith	President, First National Bank of West Point, West Point, Ga.	1974
Sam I. Yarnell	Chairman, American National Bank and Trust Co., Chattanooga, Tenn.	1975
Class B:		
Hoskins A. Shadow	President, Tennessee Valley Nursery, Inc., Winchester, Tenn.	1973
Owen Cooper	President, Mississippi Chemical Corporation and Coastal Chemical Corporation, Yazoo City, Miss.	1974
George W. Jenkins	Chairman, Publix Super Markets, Inc., Lakeland, Fla.	1975
Class C:		
John C. Wilson	President, Horne-Wilson, Inc., Atlanta, Ga.	1973
H. G. Pattillo	President, Pattillo Construction Company, Inc., Decatur, Ga.	1974
F. Evans Farwell	President, Milliken and Farwell, Inc., New Orleans, La.	1975

BIRMINGHAM BRANCH

Appointed by Federal Reserve Bank:		
Wallace D. Malone, Jr.	President and Chairman of the Board, The First National Bank of Dothan, Dothan, Ala.	1973
C. Logan Taylor	Chairman of the Board, The First State Bank of Oxford, Oxford, Ala.	1973
W. Eugene Morgan	President and Chief Executive Officer, The First National Bank of Huntsville, Huntsville, Ala.	1974
John T. Oliver	President, First National Bank, Jasper, Ala.	1975
Appointed by Board of Governors:		
David Mathews	President, University of Alabama, University, Ala.	1973
William C. Bauer	President, South Central Bell, Birmingham, Ala.	1974
(Vacancy)		1975

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DIRECTORS—*Cont.*	District 6—ATLANTA—Continued	*Term expires Dec. 31*

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank:

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
Michael J. Franco	Chairman of the Board, City National Bank of Miami, Miami, Fla.	1975

Appointed by Board of Governors:

Henry Cragg	Vice President, The Coca-Cola Company Foods Division, Winter Park, Fla.	1973
Gert H. W. Schmidt	President, TeLeVision 12 of Jacksonville, Jacksonville, Fla.	1974
James E. Lyons	President, Lyons Industrial Corporation, Winter Haven, Fla.	1975

NASHVILLE BRANCH

Appointed by Federal Reserve Bank:

Dan B. Andrews	President, First National Bank, Dickson, Tenn.	1973
Edward G. Nelson	President, Commerce Union Bank, Nashville, Tenn.	1973
W. Bryan Woodard	President, Kingsport National Bank, Kingsport, Tenn.	1974
Robert E. Curry	President, First National Bank of Pulaski, Pulaski, Tenn.	1975

Appointed by Board of Governors:

James W. Long	President, Robertson County Farm Bureau, Springfield, Tenn.	1973
Edward J. Boling	President, The University of Tennessee, Knoxville, Tenn.	1974
John C. Tune	Partner, Butler, McHugh, Butler, Tune & Watts, Attorneys, Nashville, Tenn.	1975

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DIRECTORS—*Cont.*	District 6—ATLANTA—Continued	*Term expires Dec. 31*

NEW ORLEANS BRANCH

Appointed by Federal Reserve Bank:

Tom A. Flanagan, Jr.	President, Lakeside National Bank of Lake Charles, 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
Ernest F. Ladd, Jr.	Chairman, The Merchants National Bank, Mobile, Ala.	1975

Appointed by Board of Governors:

Broadus N. Butler	President, Dillard University, New Orleans, La.	1973
Fred Adams, Jr.	President, Cal-Maine Foods, Inc., Jackson, Miss.	1974
Edwin J. Caplan	President, Caplan's Men's Shops, Inc., Alexandria, La.	1975

District 7—CHICAGO

Class A:

Melvin C. Lockard	President, First National Bank, Mattoon, Ill.	1973
Floyd F. Whitmore	President, The Okey-Vernon National Bank, Corning, Iowa	1974
Edward Byron Smith	Chairman of the Board, The Northern Trust Company, Chicago, Ill.	1975

Class B:

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
Oscar G. Mayer	Chairman of Executive Committee, Oscar Mayer & Company, Madison, Wis.	1975

Class C:

John W. Baird	President, Baird & Warner, Inc., Chicago, Ill.	1973
William H. Franklin	Chairman of the Board, Caterpillar Tractor Co., Peoria, Ill.	1974
Peter B. Clark	Chairman of the Board, President and Publisher, The Evening News Association, Detroit, Mich.	1975

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DIRECTORS—*Cont.* **District 7—CHICAGO—Continued** *Term expires Dec. 31*

DETROIT BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Ellis B. Merry	Director, National Bank of Detroit, Detroit, Mich.	1973
Harold A. Elgas	President, Gaylord State Bank, Gaylord, Mich.	1974
Joseph B. Foster	President and Chief Executive Officer, Ann Arbor Bank, Ann Arbor, Mich.	1975
Roland A. Mewhort	Chairman, Manufacturers National Bank of Detroit, Detroit, Mich.	1975

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
L. Wm. Seidman	Resident Partner, Seidman & Seidman, Grand Rapids, Mich.	1973
Tom Killefer	Vice President-Finance, and General Counsel, Chrysler Corporation, Detroit, Mich.	1974
W. M. Defoe	Chairman of the Board, Defoe Shipbuilding Company, Bay City, Mich.	1975

District 8—ST. LOUIS

Class A:

Name	Position	Term expires Dec. 31
Bradford Brett	President, The First National Bank of Mexico, Mexico, Mo.	1973
Edwin S. Jones	Chairman of the Board, First National Bank in St. Louis, St. Louis, Mo.	1974
Wm. E. Weigel	Executive Vice President, 1st National Bank and Trust Company, Centralia, Ill.	1975

Class B:

Name	Position	Term expires Dec. 31
Fred I. Brown, Jr.	President, Arkansas Foundry Company, Little Rock, Ark.	1973
James M. Tuholski	President, Mead Johnson & Company, Evansville, Ind.	1974
Edward J. Schnuck	Chairman of the Board, Schnuck Markets, Inc., Bridgeton, Mo.	1975

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DIRECTORS—*Cont.* **District 8—ST. LOUIS—Continued** *Term expires Dec. 31*

Class C:

Name	Position	Term expires Dec. 31
Harry M. Young, Jr.	Melrose Farm, Herndon, Ky.	1973
Frederic M. Peirce	Chairman of the Board and Chief Executive Officer, General American Life Insurance Company, St. Louis, Mo.	1974
Sam Cooper	President, HumKo Products, Division of Kraftco Corporation, Memphis, Tenn.	1975

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Edward M. Penick	President and Chief Executive Officer, Worthen Bank & Trust Company, N.A., Little Rock, Ark.	1973
(Vacancy)		1974
Thomas G. Vinson	President, First National Bank, Batesville, Ark.	1975
Field Wasson	President, The First National Bank, Siloam Springs, Ark.	1975

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
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
W. M. Pierce	President, Arkansas Business Development Corporation, Little Rock, Ark.	1975

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
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
Herbert J. Smith	President, The American National Bank & Trust Company, Bowling Green, Ky.	1975
Tom G. Voss	President, The Seymour National Bank, Seymour, Ind.	1975

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DIRECTORS—*Cont.* **District 8—ST. LOUIS—Continued** *Term expires Dec. 31*

LOUISVILLE BRANCH—*Continued*

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
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
James H. Davis	Chairman and Chief Executive Officer, Porter Paint Company, Louisville, Ky.	1975

MEMPHIS BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
J. J. White	President, Helena National Bank, Helena, Ark.	1973
Garner L. Hickman	Chairman and President, The First National Bank of Oxford, Oxford, Miss.	1974
Ridley Alexander	Chairman, The Second National Bank of Jackson, Jackson, Tenn.	1975
C. Bennett Harrison	Chairman of the Board, Union Planters National Bank of Memphis, Memphis, Tenn.	1975

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Alvin Huffman, Jr.	President, Huffman Brothers Incorporated, Blytheville, Ark.	1973
C. Whitney Brown	President, S. C. Toof & Company, Memphis, Tenn.	1974
Jeanne L. Holley	Assistant Professor of Business Education and Office Administration, University of Mississippi, University, Miss.	1975

District 9—MINNEAPOLIS

Class A:

Name	Position	Term expires Dec. 31
Philip H. Nason	Chairman of the Board, The First National Bank of Saint Paul, St. Paul, Minn.	1973
Roy H. Johnson	President, The First National Bank of Negaunee, Negaunee, Mich.	1974
David M. Smith	President, 1st National Bank, River Falls, Wis.	1975

Class B:

Name	Position	Term expires Dec. 31
Dale V. Andersen	President, Mitchell Packing Company, Inc., Mitchell, S. Dak.	1973
John H. Bailey	President, The Cretex Companies, Inc., Elk River, Minn.	1974
David M. Heskett	President, Montana-Dakota Utilities Co., Bismarck, N. Dak.	1975

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DIRECTORS—*Cont.* District 9—MINNEAPOLIS—Continued		*Term expires Dec. 31*
Class C:		
Russ B. Hart	President, Hart-Albin Company, Billings, Mont.	1973
Bruce B. Dayton	Chairman of the Board, Dayton Hudson Corporation, Minneapolis, Minn.	1974
David M. Lilly	Chairman of the Board, The Toro Company, Minneapolis, Minn.	1975

HELENA BRANCH

Appointed by Federal Reserve Bank:		
Richard D. Rubie	President, Missoula Bank of Montana, Missoula, Mont.	1973
Robert I. Penner	President, Citizens First National Bank, Wolf Point, Mont.	1974
John Reichel	President, 1st National Bank in Bozeman, Bozeman, Mont.	1974
Appointed by Board of Governors:		
William A. Cordingley	Publisher, Great Falls Tribune, Great Falls, Mont.	1973
Warren B. Jones	Secretary-Treasurer, Two Dot Land and Livestock Company, Harlowton, Mont.	1974

District 10—KANSAS CITY

Class A:		
C. Mose Miller	Chairman of the Board and President, The Farmers and Merchants State Bank, Colby, Kans.	1973
John A. O'Leary	Chairman of the Board, The Peoples State Bank, Luray, Kans.	1974
Roger D. Knight, Jr.	Chairman of the Board, United Banks of Colorado, Inc., Denver, Colo.	1975
Class B:		
Alfred E. Jordan	Vice President, Trans World Airlines, Inc., Kansas City, Mo.	1973
Frank C. Love	President, Kerr-McGee Corporation, Oklahoma City, Okla.	1974
Cecil O. Emrich	President, C. O. Emrich Enterprises, Norfolk, Nebr.	1975

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DIRECTORS—*Cont.* **District 10—KANSAS CITY—Continued** *Term expires Dec. 31*

Class C:

Name	Position	Term expires Dec. 31
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
Harold W. Andersen	President, World Publishing Company, Omaha World Herald, Omaha, Nebr.	1975

DENVER BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
John W. Hay, Jr.	President, Rock Springs National Bank, Rock Springs, Wyo.	1973
Dale R. Hinman	Chairman of the Board, The Greeley National Bank, Greeley, Colo.	1974
Robert L. Tripp	Chairman of the Board and Chief Executive Officer, Albuquerque National Bank, Albuquerque, N. Mex.	1974

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Maurice B. Mitchell	Chancellor, University of Denver, Indian Hills, Colo.	1973
Edward R. Lucero	Executive Director, Colorado Economic Development Association, Lakewood, Colo.	1974

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
W. H. McDonald	Chairman of the Executive Committee, The First National Bank and Trust Company of Oklahoma City, Oklahoma City, Okla.	1973
Hugh C. Jones	Executive Vice President, The Bank of Woodward, Woodward, Okla.	1974
Marvin Millard	Chairman of the Board, National Bank of Tulsa, Tulsa, Okla.	1974

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Joseph H. Williams	President and Chief Operating Officer, The Williams Companies, Tulsa, Okla.	1973
Harley Custer	General Manager, Oklahoma Livestock Marketing Association, Oklahoma City, Okla.	1974

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DIRECTORS—*Cont.* **District 10—KANSAS CITY—Continued** *Term expires Dec. 31*

OMAHA BRANCH

Appointed by Federal Reserve Bank:

- S. N. Wolbach . . . President, The First National Bank of Grand Island, Grand Island, Nebr. . . . 1973
- Glenn Yaussi . . . Chairman of the Board, National Bank of Commerce Trust & Savings, Lincoln, Nebr. . . 1973
- Edward W. Lyman . . . Chairman, The United States National Bank of Omaha, Omaha, Nebr. . . . 1974

Appointed by Board of Governors:

- A. James Ebel . . . Vice President and General Manager, Cornhusker Television Corporation, Lincoln, Nebr. . . . 1973
- Edward F. Owen . . . President, Paxton & Vierling Steel Company, Omaha, Nebr. . . . 1974

District 11—DALLAS

Class A:

- J. V. Kelly . . . Chairman of the Board, The Peoples National Bank of Belton, Belton, Tex. . . . 1973
- A. W. Riter, Jr. . . . President, The Peoples National Bank of Tyler, Tyler, Tex. . . . 1974
- Robert H. Stewart, III . . Chairman of the Board, First International Bancshares, Inc., Dallas, Tex. . . . 1975

Class B:

- 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
- Thomas W. Herrick . . . President, Mesa Agro Inc., Amarillo, Tex. . . . 1975

Class C:

- John Lawrence . . . Chairman of the Board, Dresser Industries, Inc., Dallas, Tex. . . . 1973
- Chas. F. Jones . . . Dean, College of Business Administration, University of Houston, Houston, Tex. . . . 1974
- Charles T. Beaird . . . Chairman of the Board, Beaird-Poulan Division, Emerson Electric Co., Shreveport, La. 1975

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DIRECTORS—*Cont.* **District 11—DALLAS—Continued** *Term expires Dec. 31*

EL PASO BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Cullen J. Kelly	President and Vice Chairman of the Board, The First National Bank of Midland, Midland, Tex.	1973
Wayne Stewart	President, First National Bank in Alamogordo, Alamogordo, N. Mex.	1974
Reed H. Chittim	President and Chief Executive Officer, First National Bank of Lea County, Hobbs, N. Mex.	1975
Sam D. Young, Jr.	President, El Paso National Bank, El Paso, Tex.	1975

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
Herbert M. Schwartz	President, Popular Dry Goods Co., Inc., El Paso, Tex.	1973
Gage Holland	Owner, Gage Holland Ranch, Alpine, Tex.	1974
Allan B. Bowman	President, Amax Arizona, Inc., Tucson, Ariz.	1975

HOUSTON BRANCH

Appointed by Federal Reserve Bank:

Name	Position	Term expires Dec. 31
Kline McGee	Director, Southern National Bank of Houston, Houston, Tex.	1973
Seth W. Dorbandt	Chairman of the Board and President, First National Bank in Conroe, Conroe, Tex.	1974
Bookman Peters	President, The City National Bank of Bryan, Bryan, Tex.	1975
Nat S. Rogers	President, First City National Bank of Houston, Houston, Tex.	1975

Appointed by Board of Governors:

Name	Position	Term expires Dec. 31
M. Steele Wright, Jr.	Chairman of the Board, Texas Farm Products Company, Nacogdoches, Tex.	1973
Carl B. Sherman	President, Houston Lighting & Power Company, Houston, Tex.	1974
Alvin I. Thomas	President, Prairie View A&M University, Prairie View, Tex.	1975

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DIRECTORS—*Cont.*	District 11—DALLAS—Continued	*Term expires Dec. 31*
	SAN ANTONIO BRANCH	
Appointed by Federal Reserve Bank:		
Ray M. Keck, Jr.	Chairman of the Board and President, Union National Bank of Laredo, Laredo, Tex.	1973
Leon Stone	President, The Austin National Bank, Austin, Tex.	1974
Richard W. Calvert	President, National Bank of Commerce of San Antonio, San Antonio, Tex.	1975
W. O. Roberson	Chairman of the Board, First National Bank at Brownsville, Brownsville, Tex.	1975
Appointed by Board of Governors:		
Irving A. Mathews	Chairman of the Board and Chief Executive Officer, Frost Bros., San Antonio, Tex.	1973
Marshall Boykin, III	Partner, Wood, Boykin & Wolter, Lawyers, Corpus Christi, Tex.	1974
Pete J. Morales, Jr.	President and General Manager, Morales Feedlots, Inc., Devine, Tex.	1975

District 12—SAN FRANCISCO

Class A:		
A. W. Clausen	President and Chief Executive Officer, Bank of America NT & SA, San Francisco, Calif.	1973
Carl E. Schroeder	President, The First National Bank of Orange County, Orange, Calif.	1974
James E. Phillips	President, First National Bank in Port Angeles, Port Angeles, Wash.	1975
Class B:		
Marron Kendrick	President and Chairman of the Board, Schlage Lock Company, San Francisco, Calif.	1973
Charles R. Dahl	President and Chief Executive Officer, Crown Zellerbach, San Francisco, Calif.	1974
Joseph Rosenblatt	Honorary Chairman of the Board, The Eimco Corporation, Salt Lake City, Utah	1975

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DIRECTORS—*Cont.* **District 12—SAN FRANCISCO—Continued**

		Term expires Dec. 31
Class C:		
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
Joseph F. Alibrandi	President, Whittaker Corporation, Los Angeles, Calif.	1975

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank:		
Carl E. Hartnack	President, Security Pacific National Bank, Los Angeles, Calif.	1973
Linus E. Southwick	President, Valley National Bank, Glendale, Calif.	1973
Rayburn S. Dezember	Chairman of the Board and President, American National Bank, Bakersfield, Calif.	1974
W. Gordon Ferguson	President, National Bank of Whittier, Whittier, Calif.	1975
Appointed by Board of Governors:		
Edward A. Sloan	President, Sloan's Dry Cleaners, Los Angeles, Calif.	1973
Joseph R. Vaughan	President, Knudsen Corporation, Los Angeles, Calif.	1974
Leland D. Pratt	President, Kelco Company, San Diego, Calif.	1975

PORTLAND BRANCH

Appointed by Federal Reserve Bank:		
LeRoy B. Staver	Chairman of the Board and Chief Executive Officer, United States National Bank of Oregon, Portland, Oreg.	1973
Frank L. Servoss	President, Crater National Bank of Medford, Medford, Oreg.	1974
James H. Stanard	Vice President, First National Bank of McMinnville, McMinnville, Oreg.	1974
Appointed by Board of Governors:		
Frank Anderson	Farmer, Heppner, Oreg.	1973
John R. Howard	President, Lewis and Clark College, Portland, Oreg.	1974

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DIRECTORS—*Cont.* **District 12—SAN FRANCISCO—Continued**

SALT LAKE CITY BRANCH

		Term expires Dec. 31
Appointed by Federal Reserve Bank:		
Joseph Bianco	Chairman of the Board and President, Bank of Idaho, Boise, Idaho	1973
Roderick H. Browning	President, Bank of Utah, Ogden, Utah	1974
Roy W. Simmons	President, Zions First National Bank, Salt Lake City, Utah	1974
Appointed by Board of Governors:		
Theodore C. Jacobsen	Chairman of the Board, Jacobsen Construction Company, Inc., Salt Lake City, Utah	1973
Sam H. Bennion	Secretary-Treasurer, V-1 Oil Company, Inc. and Weathertite Block Co., Idaho Falls, Idaho	1974

SEATTLE BRANCH

Appointed by Federal Reserve Bank:		
Joseph C. Baillargeon	Chairman of the Board and Chief Executive Officer, Seattle Trust & Savings Bank, Seattle, Wash.	1973
Harry S. Goodfellow	President, Old National Bank of Washington, Spokane, Wash.	1974
Robert C. Whitwam	President, American National Bank of Edmonds, Edmonds, Wash.	1974
Appointed by Board of Governors:		
Thomas T. Hirai	President, Quality Growers Company, Inc., Woodinville, Wash.	1973
C. Henry Bacon, Jr.	Vice Chairman, Simpson Timber Company, Seattle, Wash.	1974

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PRESIDENTS AND VICE PRESIDENTS

(December 31, 1973)

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Boston	Frank E. Morris James A. McIntosh	D. Harry Angney Lee J. Aubrey F. K. Cummings L. M. Hoyle, Jr. Niels O. Larsen Richard E. Randall J. M. Thayer, Jr. Richard A. Walker	Daniel Aquilino Norman T. Byrnes R. W. Eisenmenger Thomas F. Hunt, Jr. Donald A. Pelletier Laurence H. Stone James T. Timberlake
New York	Alfred Hayes Richard A. Debs	David E. Bodner Charles A. Coombs Karl L. Ege George Garvy Alan R. Holmes Leonard Lapidus Fred W. Piderit, Jr. A. Marshall Puckett F. L. Smedley T. M. Timlen, Jr. H. David Willey	W. H. Braun, Jr. Richard G. Davis Peter Fousek Edward G. Guy John T. Keane Paul Meek Everett B. Post Thomas C. Sloane Peter D. Sternlight Thomas O. Waage
Buffalo		Angus A. MacInnes, Jr.	
Philadelphia	David P. Eastburn Mark H. Willes	Hugh Barrie Joseph M. Case D. Russell Connor Richard W. Epps H. H. Holloway Joseph R. Joyce G. William Metz William E. Roman Robert R. Swander	Edward G. Boehne Hugh Chairnoff Thomas K. Desch W. Lee Hoskins 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 W. H. Hendricks Harry W. Huning T. E. Ormiston, Jr. R. E. Showalter	George E. Booth, Jr. R. Joseph Ginnane William J. Hocter R. Thomas King Lester M. Selby Donald G. Vincel
Cincinnati		Charles A. Cerino Fred O. Kiel	
Pittsburgh		Samuel G. Campbell Robert D. Duggan	
Richmond	Robert P. Black (Temporarily vacant)	L. W. Bostian, Jr. John G. Deitrick H. Ernest Ford A. V. Myers, Jr. James Parthemos John F. Rand Aubrey N. Snellings	W.T.Cunningham,Jr. Welford S. Farmer William C. Glover John L. Nosker C. D. Porter, Jr. R. E. Sanders, Jr. Andrew L. Tilton

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PRESIDENTS AND VICE PRESIDENTS—*Continued*

Federal Reserve Bank or branch	President First Vice President	Vice Presidents
Richmond—Cont.		
Baltimore		H. Lee Boatwright, III Gerald L. Wilson
Charlotte		Boyd Z. Eubanks J. R. Monhollon Stuart P. Fishburne
Culpeper [1]		J. Gordon Dickerson, Jr. Albert D. Tinkelenberg
Atlanta	Monroe Kimbrel Kyle K. Fossum	Harry Brandt Charles D. East Robert P. Forrestal Billy H. Hargett Robert E. Heck Arthur H. Kantner J. E. McCorvey Brown R. Rawlings Richard A. Sanders Charles T. Taylor Pierre M. Viguerie
Birmingham		Hiram J. Honea
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 George W. Cloos LeRoy A. Davis R. W. Dybeck Edward A. Heath Ward J. Larson R. A. Moffatt J. R. Morrison Louis J. Purol R. M. Scheider Karl A. Scheld Harry S. Schultz Roby L. Sloan Bruce L. Smyth Jack P. Thompson Allen G. Wolkey
Detroit		William C. Conrad Ronald L. Zile
St. Louis	Darryl R. Francis Eugene A. Leonard	Leonall C. Andersen Ruth A. Bryant Joseph P. Garbarini W. W. Gilmore Jerry L. Jordan John W. Menges D. W. Moriarty, Jr. F. G. Russell, Jr. Charles E. Silva Harold E. Uthoff
Little Rock		John F. Breen
Louisville		Donald L. Henry
Memphis		L. Terry Britt

[1] Not considered a branch

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PRESIDENTS AND VICE PRESIDENTS—*Continued*

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Minneapolis	Bruce K. MacLaury M. H. Strothman, Jr.	Frederick J. Cramer L. W. Fernelius Thomas E. Gainor Douglas R. Hellweg D. R. McDonald John P. Olin R. W. Worcester	Ralph J. Dreitzler Lester G. Gable Roland D. Graham John A. MacDonald Clarence W. Nelson C. A. Van Nice
Helena		Howard L. Knous	
Kansas City	George H. Clay John T. Boysen	W. T. Billington Thomas E. Davis Joseph R. Euans J. David Hamilton G. H. Miller, Jr. Sheldon W. Stahl	H. R. Czerwinski Raymond J. Doll J. Roger Guffey 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 T. W. Plant	Robert H. Boykin Leon W. Cowan Larry D. Higgins W. M. Pritchett T. R. Sullivan	G. C. Cochran, III Ralph T. Green James A. Parker T. J. Salvaggio E. W. Vorlop, Jr.
El Paso		Frederic W. Reed	
Houston		James L. Cauthen Rasco R. Story	
San Antonio		Carl H. Moore	
San Francisco	John J. Balles John B. Williams	James M. Brundy Wesley G. DeVries Richard C. Dunn H. B. Jamison D. V. Masten Louis E. Reilly William J. Sumner	A. S. Carella Robert C. Dietz W. H. Hutchins Thomas E. Judge Rix Maurer, Jr. Kent O. Sims
Los Angeles		James M. Davis Gerald R. Kelly	
Portland		W. M. Brown	
Salt Lake City		A. Grant Holman	
Seattle		Paul W. Cavan James J. Curran	

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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 March 20, 1972, Mr. Monroe Kimbrel and Mr. Philip E. Coldwell, Presidents of the Federal Reserve Banks of Atlanta and Dallas, were elected Chairman and Vice Chairman, respectively, for the forthcoming Conference year. At the meeting on March 19, 1973, Mr. Coldwell and Mr. Frank E. Morris, President of the Federal Reserve Bank of Boston, were elected Chairman and Vice Chairman, respectively, for the forthcoming Conference year, ending with the March 1974 meeting.

At the March 1972 meeting, Mr. H. Terry Smith and Mr. Robert Smith, III, of the Federal Reserve Banks of Atlanta and Dallas, were appointed Secretary and Assistant Secretary, respectively. At the March 1973 meeting, Mr. Robert Smith, III, and Mr. Herbert F. Wass, Federal Reserve Bank of Boston, were appointed Secretary and Assistant Secretary, respectively.

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 May 2, 1972, Mr. Kyle K. Fossum (First Vice President of the Federal Reserve Bank of Atlanta) and Mr. T. W. Plant (First Vice President of the Federal Reserve Bank of Dallas) were elected Chairman and Vice Chairman, respectively, of the Conference. Mr. H. Terry Smith and Mr. Robert Smith, III were appointed Secretary and Assistant Secretary, respectively.

On May 1, 1973, the Conference elected Mr. Plant as Chairman and Mr. Earle O. Latham (First Vice President of the Federal Reserve Bank of Boston until his retirement) as Vice Chairman, to be succeeded by Mr. James A. McIntosh, upon his appointment as First Vice President of the Federal Reserve Bank of Boston, effective June 15, 1973; and appointed Mr. Robert Smith, III, and Mr. Herbert F. Wass, as Secretary and Assistant Secretary, respectively, for the forthcoming Conference year.

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