

62nd Annual Report 1975



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Letter of Transmittal

**BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM**
Washington, June 16, 1976

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

This report covers operations of the Board during the calendar year 1975.

Yours respectfully,

Arthur F. Burns, *Chairman*

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Part 1

*Monetary Policy
and the
U.S. Economy
in 1975*

Introduction

In 1975 the economy began to recover from the longest and deepest recession of the post-World-War-II period. The precise timing of the turnaround in general business activity has yet to be designated, but an upturn clearly was under way by late spring. The level of employment reached its cyclical trough in March and then began to rise; for new housing starts the low point occurred a month earlier and for industrial production a month later. During the second quarter the gross national product (GNP) in constant dollars registered its first increase since the final quarter of 1973.

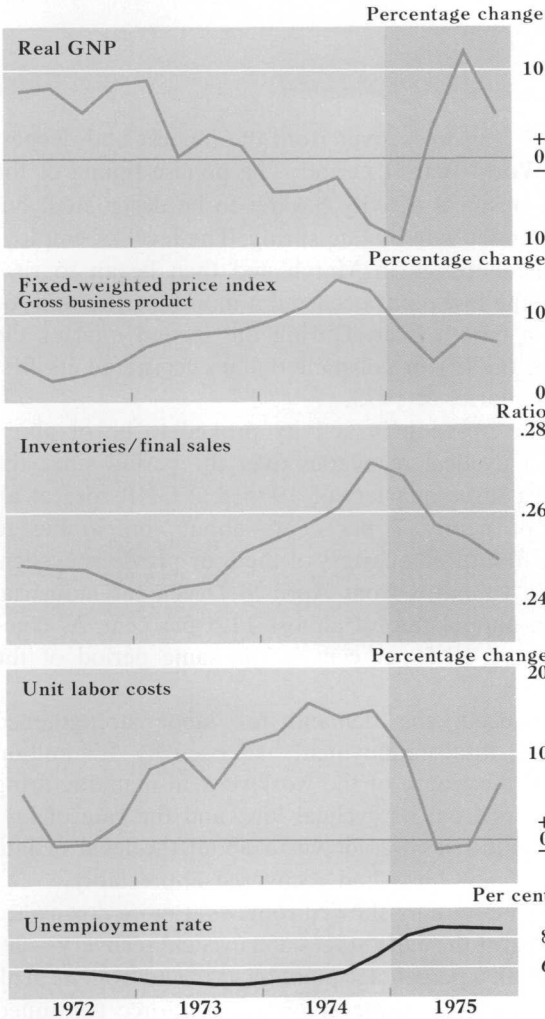
Once under way, the upswing in activity proved to be of about average dimensions for cyclical recoveries over the period since the Korean war. In the last three quarters of 1975 real GNP rose at an average annual rate of nearly 7 per cent—about comparable to the average rise in the first three quarters of the four previous cyclical recoveries. And in the 8 months from April to December industrial output advanced at an annual rate of almost 11.5 per cent, as compared with an average of 12.5 per cent in the same period of the earlier recoveries.

As production advanced, the demand for labor strengthened materially. By year-end, total employment had risen by 1.3 million from its March trough; the length of the workweek in manufacturing had moved up 1½ hours from its cyclical low; and the rate of layoffs in manufacturing industries was down to about the level of late 1973, while the rate of new hires had recovered appreciably.

The unemployment rate initially showed somewhat more downward resistance than is typical for the early stages of a cyclical recovery—declining only about one-half a percentage point by year-end from its peak in the second quarter. Growth in the civilian labor force continued to be fairly rapid in the latter half of 1975, as it had been throughout the recession. With real incomes and savings significantly eroded by the effects of inflation, family efforts to maintain and improve their living standards contributed to the sustained growth in the number of persons seeking jobs.

A substantial factor in the turnaround of business activity from steep recession to vigorous recovery was the pattern of interaction

Indicators of economic performance



Change (from previous quarter) in real GNP (1972 dollars), Dept. of Commerce data at seasonally adjusted annual rates.

Change (from previous quarter) in gross domestic business product fixed-weighted price index, Dept. of Commerce data at seasonally adjusted annual rates.

Ratio of real nonfarm business inventories to final sales, Dept. of Commerce data, seasonally adjusted. End of period stocks/sales at annual rates.

Change (from previous quarter) in private nonfarm unit labor costs. Dept. of Labor data at seasonally adjusted annual rates.

Unemployment rate, Dept. of Labor data.

between inventory investment and final sales. Consumer spending began to strengthen early in 1975—partly in response to price concessions and manufacturers' rebates—and it was further bolstered in the late spring by tax rebate checks and special social insurance disbursements. As a consequence, efforts of business firms to clear their shelves of excess stocks were remarkably successful. In the second quarter the pace of inventory liquidation was the deepest, relative to GNP, of any quarter in the postwar period, and inventory/sales ratios declined rapidly—setting the stage for a strong rebound in production in the third quarter.

The strengthening of final sales that had begun to develop early in 1975 was not confined to consumer markets, however. In real terms, purchases of goods and services by State and local governments, although growing at a slower rate than in earlier years, continued to advance throughout 1975. Housing starts began to rise appreciably after April and continued to increase during the remainder of the year. By December the physical volume of residential construction activity was up one-fourth from its spring trough. As is typical of the early stages of a cyclical upswing, the recovery of business fixed investment outlays lagged behind the turnaround of spending in other sectors. By the fourth quarter, however, even this sector had registered some modest improvement in real terms.

A factor tending to cushion the severity of the recession was the strong U.S. performance in foreign trade. Even though the 1975 setback in economic activity was worldwide, the yearly volume of U. S. exports declined only 3 per cent, and exports of capital goods held up well. On the other hand, the volume of imports dropped sharply—by 12.5 per cent—as demand in the United States weakened and inventories were liquidated. As a result, the U.S. trade balance rebounded from a deficit of \$5 billion in 1974 to a surplus of \$9 billion in 1975. Net transactions on services, including income on foreign investments, were down somewhat from the record total in 1974, but they also remained high by historical standards.

Full recovery from a recession as deep as that of 1974–75 is bound to take some time. Substantial further gains in real output will be needed in 1976 and beyond to provide employment not only for the large number of unemployed persons who are still looking for jobs but also for an expanding labor force, and to restore utilization

of the Nation's industrial plant to a satisfactory rate. Public policy in 1976 will need to keep this objective clearly in mind. Yet the strength of the recovery in 1976 may well depend more on the dynamics of the business cycle than on any important new stimulus to be provided by public policy.

It was heartening therefore to note that as 1975 drew to a close conditions in the economy appeared very favorable to continued expansion. Inventory/sales ratios in many lines were at or near historic lows, and final sales remained strong following an unusually big upsurge in consumer buying over the Christmas season. Conditions in financial markets remained supportive of expansion. Thus, by early 1976, interest rates had moved down to their lowest levels in about 3 years; savings inflows to the specialized mortgage lenders remained strong; and stock prices staged a spirited recovery. Most importantly, these and other signs indicated a rebuilding of confidence among consumers and business firms in the prospects for a sustained economic expansion.

Bolstering that confidence must be another important objective of public policy during 1976. This will require continued progress in the Nation's struggle to free itself from the grip of inflation. Substantial headway has been made toward that objective since the end of 1974. In 1975 the rise of consumer prices moderated to 7 per cent—from 12 per cent in the prior year. For wholesale prices the improvement was even more dramatic; these prices increased on the average by only 4 per cent in 1975, compared with 21 per cent in 1974. The statistics on consumer and wholesale prices, however, reflect in part the relative absence in 1975 of the influence of several factors that had boosted prices in the prior year—such as the ending of price controls, the unprecedented upsurge in energy prices, and the sharp rise in prices of food. Hence they tend to exaggerate the degree of improvement that was made in reducing the underlying rate of inflation.

Further significant progress during 1976 in winding down the rate of price increase may be difficult to achieve if economic activity continues to expand substantially, as is widely expected. The substantial improvement in price performance in late 1975 and the early months of 1976—which was paced by declines in prices of foods and fuels—may prove to be temporary. In fact, during the latter half of 1975, there

was some worsening in the inflation picture. For example, wholesale prices of industrial commodities rose at an annual rate of 8.7 per cent in the latter half of the year, compared with 3.4 per cent in the first half. For consumer prices, however, the evidence was mixed. The index for all consumer prices increased a little faster on the average in the second half of 1975 (7.5 per cent, annual rate) than in the first half (6.6 per cent, annual rate). For consumer nonfood commodities, on the other hand, the rate of rise decelerated—from a 6.6 per cent annual rate in the first half to a 5.6 per cent annual rate in the second.

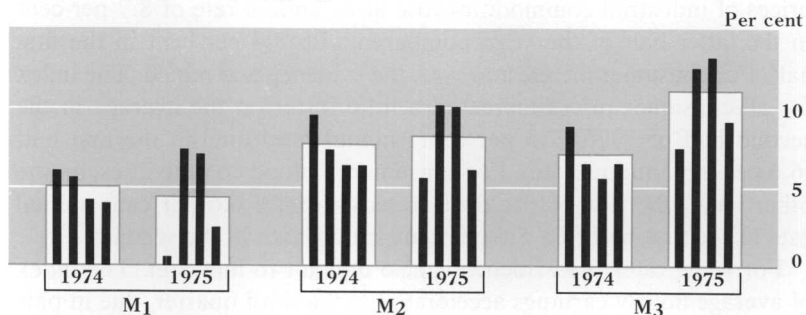
For wage rates the evidence is also difficult to interpret. The index of average hourly earnings accelerated in the third quarter, due in part to some relatively large contract settlements in that period. Even so, the rate of rise in average wages was not appreciably higher in the second half of 1975 than in the first half—and was well below the peak rates of advance recorded in 1974. In any event, the rise in average wages in 1975—around 8 per cent—exceeds by a wide margin the long-term trend rate of improvement in productivity, which is in the neighborhood of 2.5 per cent per year. The long-term trend in production costs and prices is thus still strongly upward, and it remains a serious problem for economic stabilization policy.

The course of monetary policy in 1975 had to take account of the urgent need to make further progress in dampening inflation, but it also had to ensure that conditions in money and credit markets would contribute to a good recovery in economic activity, and to the rebuilding of liquidity needed to sustain economic expansion. The middle ground sought by the monetary authorities led over the course of the year to generally easier credit market conditions, lower interest rates, and a substantial rebuilding of liquidity positions.

While the narrowly defined money stock, M_1 (currency and demand deposits), expanded at a relatively moderate 4.5 per cent rate from the fourth quarter of 1974 to the fourth quarter of 1975, the broader measures of money showed more substantial growth. M_2 —which includes time and savings deposits other than large-denomination certificates of deposit (CD's) at commercial banks, in addition to currency and demand deposits—rose by 8 per cent, and M_3 —which also includes deposits at thrift institutions—rose by 11 per cent.

On the basis of historical relationships, one might have expected that the moderate 4.5 per cent rate of growth in M_1 during 1975,

Growth in monetary aggregates

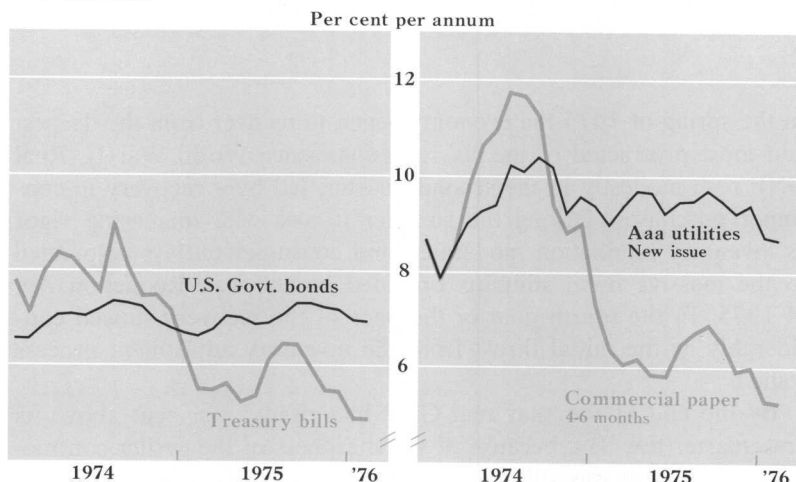


For definitions and notes, see Table 6 on page 53.

occurring in the context of a 9 per cent increase in nominal GNP, would have been accompanied by sharp increases in interest rates, particularly short-term interest rates. Yet in the latter half of the year, when nominal GNP increased at an annual rate of 15 per cent and the narrow money stock at only 5 per cent, interest rates did not rise at all. On the contrary, interest rates declined on balance over the second half of 1975, and by early 1976 both long- and short-term interest rates were below their levels of late 1974. Thus, even with large increases in aggregate spending, relatively moderate monetary growth was associated with an easing of credit conditions.

This changed relationship between money and GNP appears to reflect an important structural shift under way since mid-1974 that affects the amount of cash balances needed to support any given level of economic activity. These changes have probably resulted, in part, from public responses to the record levels of interest rates that prevailed in the spring and summer of 1974, and in part from recent financial innovations—including the spread of overdraft privileges extended by banks to demand deposit customers, the growth of NOW accounts (negotiable orders of withdrawal), telephonic transfers of funds from savings accounts to demand deposits, arrangements for making payments to third parties from savings accounts, and shifts of funds from demand deposits to savings accounts by governmental units (beginning in late 1974) and by business firms (authorized for the first time in the fall of 1975).

Interest rates



Monthly averages. U.S. Treasury bills, market yields on 3-month issues; U.S. Govt. bonds, market yields adjusted to a 20-year constant maturity by U.S. Treasury; Aaa utility bonds, weighted averages of new publicly offered bonds rated Aaa, Aa, and A by Moody's Investors Service and adjusted to an Aaa basis; prime commercial paper, dealer offering rates.

How long this shift in the public's demand for cash balances will continue remains to be seen. Clearly, increases in the income velocity of money as large as those that occurred in the latter half of 1975 cannot be counted on as a long-run matter. Nevertheless, there is little reason to expect that the innovational process that has been set in motion in recent years will end abruptly. As in 1975, monetary policy in 1976 will therefore need to be especially alert to signs of change in the rate of change in the relationship between the growth of money balances and the growth of aggregate demand. This would seem to mean, among other things, that greater emphasis will need to be placed on encouraging growth rates in the broader monetary aggregates that appear consistent with sustainable expansion in the Nation's economy.

Course of Economic Activity

In the spring of 1975 the economy began to recover from the deepest and most protracted of the six recessions since World War II. Real GNP rose modestly in the second quarter, led by a recovery in consumer purchases. During the summer it rose with increasing vigor as inventory liquidation moderated and consumer outlays responded to the massive fiscal stimulus provided by the Tax Reduction Act of 1975. In the fourth quarter the pace of the recovery slowed considerably as the initial thrust from the inventory adjustment process waned.

By the end of the year real GNP had risen 5 per cent above its first-quarter low. But because of the sharpness of the earlier contraction, real output was still some 2 per cent short of its 1973 high and much below the economy's potential capacity. Similarly, industrial production at the year-end was still 6 per cent below its previous high. By January 1976 the unemployment rate had declined by more than 1 percentage point from its 1975 spring peak, but 7.3 million persons, representing 7.8 per cent of the labor force, remained unemployed. Clearly the recovery had a considerable way to go to attain satisfactory levels of employment and capital utilization.

1. Gross national product

GNP measure	1973	1974	1975	1975 ¹			
				Q1	Q2	Q3	Q4
In billions of dollars							
Current dollars	1,306	1,407	1,499	1,434	1,461	1,528	1,573
1972 dollars	1,233	1,211	1,186	1,159	1,168	1,201	1,216
Percentage change from preceding period							
Current dollars	11.5	7.7	6.5	-2.1	7.7	19.9	12.1
1972 dollars	5.3	-1.8	-2.0	-9.2	3.3	12.0	5.0
Implicit deflator	5.9	9.7	8.8	7.8	4.3	7.1	6.8

¹ Quarterly data are at seasonally adjusted annual rates.

NOTE.—Dept. of Commerce data.

There was also a need to reduce the still high rate of inflation. In late 1975 price indexes were advancing at an annual rate of around 7 per cent. This was far below the 12 per cent rate of a year earlier, but still unsatisfactory from the standpoint of equity, economic performance, and consumer and business confidence.

NATURE OF THE RECESSION

Many aspects of the economic upturn in 1975 had been shaped by the recession that preceded it. The economic downturn that began in late 1973 developed rather slowly at first, as a high rate of inventory accumulation continued despite a steady weakening in final sales. The contraction steepened in the last quarter of 1974 when real consumer purchases dropped abruptly and businesses—becoming fully aware of the weakness of final demands—began to cut orders sharply. Industrial production fell 12.5 per cent from September 1974 to April 1975. The cutback of economic activity was manifested in a major increase in unemployment from 5.6 per cent of the labor force in the third quarter of 1974 to 8.9 per cent in May 1975.

While many developments were involved in this broad-based economic setback, the extraordinary inflation of 1973–74 was a fundamental factor. For the consumer sector, the price inflation led to increased uncertainty about the ability to meet spending commitments and to a reluctance to undertake discretionary purchases. Strongly reinforcing this tendency was a deterioration in the real wealth positions of consumers as the purchasing power of fixed-dollar-value assets and stock market holdings dropped sharply. While there were partially offsetting increases in the value of real estate, it is unlikely that such capital gains, which are usually unrealized, have so prompt an influence on spending decisions as changes in the real value of liquid financial asset holdings.

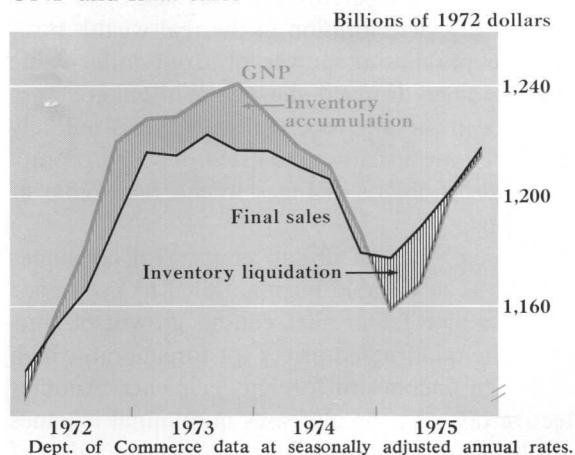
In addition to the reduced value of dollar assets, real consumer incomes shrank after 1973 as disposable income failed to keep pace with price increases. One major factor that caused growth of purchasing power to lag was the quadrupled prices for foreign oil, which had the effect of transferring income to foreign recipients. Another was rapidly rising effective tax rates, as increases in nominal incomes pushed consumers into higher tax brackets and diluted the value of their tax exemptions and deductions.

The position of new borrowers also became much more difficult in the environment of inflation, as nominal interest rates rose to unprecedented heights. This accentuated problems of cash flow and impeded credit extensions to areas such as home mortgages that are affected by interest rate ceilings.

Although businesses at first did not cut back their spending in reaction to inflation, the eventual decline in capital spending and in inventories was particularly sharp. One effect of the intense price increases in 1973–74 was to mask the underlying weakness in sales and profits. Reported profits were inflated because inventories were being sold at prices that exceeded original acquisition costs and because capital was being depreciated on the basis of lower original cost rather than the higher, current replacement cost. But these profits were not available to firms because they were being used to replenish inventories and equipment; and in addition, funds were needed to pay the taxes due on these profits.

These illusory accounting profits, combined with inflationary expectations and fears of shortages—whether the result of price controls or other developments—led to a predisposition for intensive stockpiling of commodities. As a result, by the summer of 1974 the ratio

GNP and final sales



of inventories to sales had risen to the highest point for any business cycle expansion since 1957.

In the fall of 1974, however, when real final sales dropped sharply, businesses abruptly reduced their inventory targets. Despite big cuts in orders and production during the fourth quarter, final sales dropped even more swiftly than shipments, and inventories soared. This caused further cutbacks in orders and led during the first half of 1975 to the largest inventory liquidation, relative to GNP, since the 1940's.

THE UPTURN

The economic upturn in 1975 was set in motion by a recovery in final sales and by progress in removing imbalances between production and sales as the inventory cycle proceeded. Various developments encouraged the recovery of final sales in the second quarter, and these in turn affected inventory policies. Of major importance to the improvement in consumer outlays was the decline in rates of inflation during the winter of 1975 in conjunction with gains in income. During this period consumers reacted quickly to price concessions on a number of products, particularly to the price rebates offered by auto manufacturers in late January. As a result, consumer purchases rose strongly.

Monetary policy also helped to set the stage for an upturn, by creating conditions in which both the financial and nonfinancial sectors could improve their liquidity positions. The easier credit conditions that resulted began to affect the housing market, for example, even while recessionary forces were still spreading. New mortgage loan commitments at savings and loan associations turned up in November 1974. By early 1975, sales of new and existing single-family homes were also increasing, and the backlog of unsold new homes had started to decline. During the spring, sales of new homes increased further as the temporary tax credit for unsold new homes went into effect. Residential building activity also began its recovery at that time, albeit from a very low level.

Fiscal policy likewise had a positive influence even before passage of the Tax Reduction Act in late March. Apart from the cyclical downward response in tax liabilities, there was a quick expansion in

income-maintenance payments—such as regular and newly expanded unemployment insurance coverage and food stamp programs—as well as in grants to State and local governments for public service employment and for aid to families with dependent children.

These programs increased incomes by about \$12 billion (measured at annual rates in constant dollars) between the third quarter of 1974 and the second quarter of 1975—a period in which real GNP was declining by more than \$40 billion. These figures indicate that income-maintenance programs played a stronger role in cushioning the downward momentum of consumption during the recent recession than in the 1957–58 recession. At that time income offsets from similar Federal payments were smaller, in part because some of the programs now operative—such as food stamps—had not been developed.

The move to recovery also gained support because exports declined only moderately while domestic inventory liquidation was sharply curtailing U.S. imports. U.S. merchandise exports were especially strong in two areas—agricultural products, because of foreign grain shortages, and capital equipment, because of the improvement of our competitive position in world markets, reflecting in part previous devaluations in the relative foreign exchange value of the dollar.

Improvement in important areas of final demands hastened the end of the massive liquidation of nonfarm business inventories that had characterized the early months of 1975. Such liquidation reached its deepest point—a \$30 billion annual rate—in the second quarter. Then in the third and fourth quarters it proceeded at a much reduced rate of \$6 billion to \$7 billion.

In general, the demand sectors that led the recovery during 1975 had also been the typical leaders in earlier postwar business cycles. Although the sectors were the same—consumption, housing and inventories—there were differences in timing. Housing starts, for example, turned up during the second quarter of 1975—somewhat later than in earlier recoveries. As a result, the contribution of residential construction outlays was smaller in 1975 than is usual for the initial recovery stage. On the other hand, the upward shift in inventories that occurred in the third quarter was larger relative to GNP than in any other quarter since 1950—due in part to the sharpness of the preceding decline.

TAX REDUCTION ACT OF 1975

The factors described above were sufficient to impart an upward thrust to the economy during the second quarter of 1975, when real GNP rose 3.3 per cent and real final sales rose 3.8 per cent, both at annual rates. This initial rise and the subsequent enormously accelerated third-quarter rate of expansion—12 per cent for real GNP and 4.7 per cent for final sales—were reinforced by the Tax Reduction Act of 1975, passed in late March. That act provided among other things for (1) tax cuts in personal withholding rates and some corporate rates; (2) a larger investment tax credit, as well as tax credits on purchases of unsold new homes; and (3) one-time tax rebates (up to \$200) on 1974 individual income taxes, plus special payments of \$50 each to the recipients of Federal social insurance benefits and their dependents.

More than half of this package—or about \$12 billion—represented normal tax cuts that affected regular paychecks and profits statements throughout the rest of the year. But the remainder involved nearly \$10 billion of one-time payments, most of which were mailed in May and June. In addition, as a result of legislation enacted in 1973, social security recipients received a permanent increase in benefits, which took the form of an 8 per cent cost-of-living adjustment at the beginning of July.

The specific effects of large, one-shot injections into the private spending stream are difficult to estimate. Past studies of the consumption effects of sizable transitory income receipts suggest that non-recurring receipts are saved to a larger extent than ordinary income. Nevertheless, they appear to lift consumption somewhat, and they

2. Real consumer expenditures

Growth, in per cent

Period	Durable goods	Nondurable goods	Services
1974—Year...	-6.9	-2.1	2.6
1975—Q1....	4.3	2.6	.3
Q2....	10.0	8.4	3.9
Q3....	23.6	1.4	.5
Q4....	11.1	3.6	2.4

NOTE.—Quarterly data shown at annual rates.

substantially shift the timing of outlays for durable goods toward the period in which the nonrecurring funds are received.

At the time when the one-time Federal payments were made in the spring of 1975, saving did increase markedly. However, the data suggest that a significant portion was soon invested in consumer durable goods. As Table 2 indicates, there was a bulge in purchases of such goods during the second and third quarters, and there was also some acceleration in expenditures for nondurable goods and services.

CONTINUING RECOVERY

The Tax Reduction Act thus contributed significantly to the spectacular economic growth attained in the third quarter. Taking the second and third quarters together, real personal consumption expenditures rose at a 5.1 per cent annual rate—the largest increase since early 1973. These larger-than-expected sales to consumers helped to clear the shelves of excess inventories in a number of lines, and in this way encouraged the pick-up in production that developed during the summer.

Much of the economic stimulus that stemmed from the slowing of inventory liquidation was concentrated during the third quarter, when tax rebates and special social security payments also were exerting the bulk of their direct impact on sales. By fall retail sales were growing more slowly again, and the rates of expansion in industrial production and employment moderated considerably. As a result, growth in real GNP slackened to a 5.0 per cent rate during the fourth quarter. However, both retail sales and industrial production grew more rapidly again toward year-end—leading to substantial increases in employment and personal income at the close of 1975 and in early 1976.

In this environment, with retail inventories on the lean side and the reduction in income tax rates extended through June, the outlook early in 1976 seemed favorable to sustained growth in private demands. In addition to consumption and inventories, prospects for residential construction were improved. Although business fixed investment had lagged behind other major categories of spending in the recovery up to that point, capacity utilization rates were on the rise and corporate profits were moving up strongly. This situation, similar

to that in the early stages of other recoveries, suggested the probability of a strengthening in capital outlays as the year progressed.

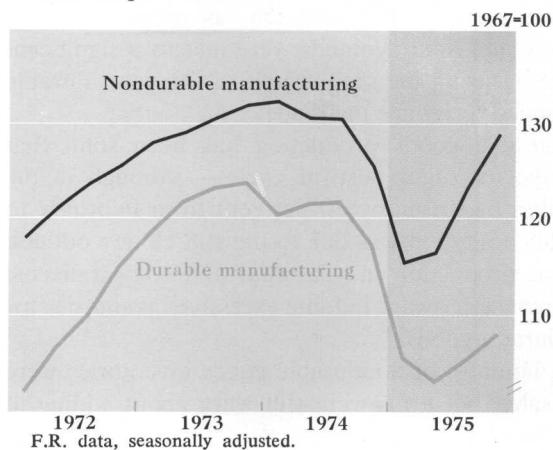
ECONOMIC DEVELOPMENTS BY SECTOR

Developments in certain types of activity were of special significance to the behavior of the economy in 1975, and for that reason they deserve further discussion.

Inventories and industrial production

Inventories and production of *nondurable goods* showed substantially wider swings during 1975 than in earlier cyclical periods. There had been an unusually large build-up in such stocks through mid-1974, in anticipation of shortages, price increases, and rising sales. By the third quarter of 1974, it became evident that underlying demands were weakening; consequently, businessmen began to trim their stocks of nondurable goods—particularly in the trade sector. But during the fourth quarter, with consumer demand collapsing, inventories rose sharply relative to sales. Thereafter, stocks were sharply reduced both at nondurable manufacturers and in the trade sector.

Industrial production



The large liquidation of nondurable goods inventories was a unique feature of the recent recession. Typically, movements in durable goods dominate the inventory cycle; producers of such goods—since they hold much of their inventory as work-in-process—are slower to adjust output to changes in sales patterns. The unusually large adjustment in nondurable stocks during the recent recession resulted from the greater-than-normal build-up in such stocks and the subsequent sharp decline in final demand. A downward shift in price expectations also played a role.

By the late spring and early summer of 1975 the correction in nondurable goods inventories was tapering off and production of such goods began to improve. Final demands were increasing, and in fact there were indications that the reduction of stocks during the first half had been excessive. By December, production of nondurable consumer goods had regained its cyclical peak and was about 10 per cent above the cyclical trough; meanwhile, output of nondurable materials had risen by almost 20 per cent.

As for *durable goods*, production dropped 16 per cent during the fall and winter of 1974–75, compared with a drop of 20 per cent during the 1957–58 recession. A substantial part of the 1974–75 cut-back was concentrated in the automobile industry. To bring rising stocks of unsold automobiles under control, assemblies were reduced by 40 per cent between October 1974 and February 1975. These actions and the pick-up in auto sales early in 1975 resulted in a huge decline in auto inventories over the first 6 months of 1975. Inventories of other durable goods also contracted, as output in these industries remained low and final demands were met to a significant extent from inventories. During the second half of the year, durable goods producers continued to reduce their stocks.

The recovery in durable goods production has been somewhat slower than the average for other postwar cycles—although in the case of autos, assemblies had risen by 70 per cent from February to December. Some of this hesitation was due to the still cloudy outlook for business equipment production at year-end; and some reflected the caution that still prevailed toward holding excessive inventories for both durable and nondurable goods.

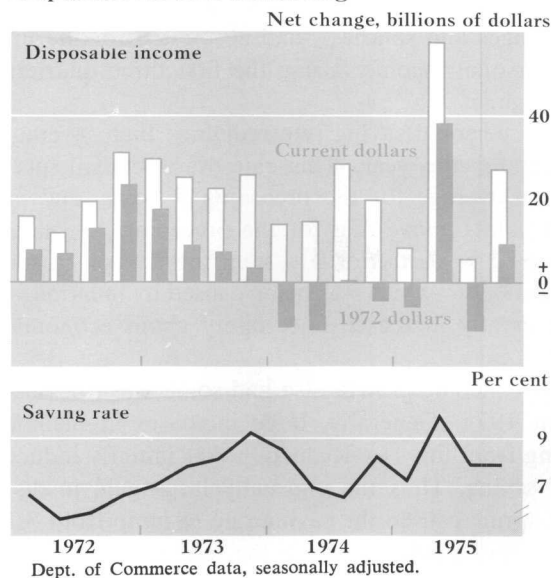
As the year closed, holdings of nondurable goods inventories were quite thin relative to sales, but firms were still wary about adding to

stocks. Inventories of nonautomotive durable goods held by retailers also were moderate relative to sales; but those held by manufacturers were still relatively high. For all inventories combined, the ratio to monthly sales declined from 1.67 in December 1974 to 1.51 a year later. Thus, the stage seemed to be set for a substantial further shift to accumulation of inventories during 1976 if, as expected, real final demands continue to strengthen.

Disposable income and consumption

The consumer sector endured a far greater and more prolonged adjustment in the recent recession than in previous declines, largely because of the effects of continued inflation on real income. Rising prices not only reduced the purchasing power of incomes, but also had an adverse, indirect effect on disposable incomes via the progressive income tax structure. Rapid increases in nominal personal incomes during 1974 moved many workers into higher tax brackets.

Disposable income and saving



Between the last quarter of 1973 and the first quarter of 1975 Federal and State and local personal taxes rose at a \$21 billion rate. Social security insurance payments increased another \$6 billion during the same period.

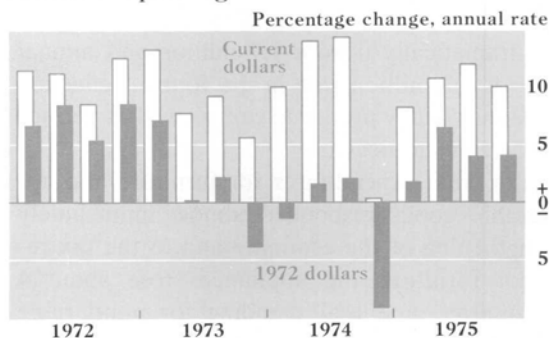
This experience contrasted with that in the 1957 recession, when personal income taxes and social security payments, taken together, had declined by more than \$1 billion. Only a part of the recent decline in real take-home pay was offset by the substantial rise in transfer payments. Putting these various elements together, real disposable incomes declined by about 4 per cent between the fourth quarter of 1973 and the first quarter of 1975. Over the remaining three quarters of 1975, however, a gain of about 4.25 per cent restored the aggregate level of incomes—although on a per capita basis purchasing power remained below the prerecession high.

The increase in real disposable income during the last three quarters of 1975 was a function of increases in wages and salaries and in farm proprietors' income, larger transfer payments, a reduction in the rate of price advances, and the tax cuts made in the spring. Effective Federal withholding tax rates declined from about 16 per cent in early 1975 to 14.5 per cent by summer. In contrast to the many elements contributing to the recent rise in disposable income, only one—growth in wages and salaries—had accounted for the increase in disposable personal income during the first three quarters following the 1958 trough.

Throughout 1975 the personal saving rate remained high, averaging about 8.3 per cent for the year. This rate was about 1 percentage point above the average for the preceding 5 years, and as much as 2 percentage points above that for the preceding 15 years. The upward shift reflected in part efforts to stem the erosion in the real volume of financial assets—which was being caused by inflation—and to cope with the greatly increased uncertainty about economic developments.

The uneven pattern of income growth also had some effect in raising the saving rate in 1975. Generally, large increases in income such as those stemming from the Tax Reduction Act initially induce a rise in the level of saving. Thus the unusually large gain in disposable income in the spring caused the saving rate to jump from 7.2 per cent in the first quarter to 9.9 per cent in the second. In the next two quarters the rate receded to around 8 per cent.

Consumer spending



Based on Dept. of Commerce data, seasonally adjusted.

Most analysts expect the saving rate to drift downward as consumers regain confidence in their job security, add to their wealth, and anticipate more moderate rates of inflation. However, opportunities that have recently become available for tax-deferred saving in retirement funds could exert some small influence in the opposite direction over a number of years.

Consumer expenditures, in real terms, started to recover from a depressed level as early as the first quarter of 1975, increased rapidly in the second quarter, and recovered further during the remainder of the year. All major categories of consumption—durable goods, nondurable goods, and services—increased in constant dollars during each quarter of the year.

A notable turning point was the advance of durable goods in the first quarter, slightly ahead of the trough in economic activity. Responding to manufacturers' rebates—particularly on small cars, which had been over-stocked—sales of U.S.-made autos picked up from a deeply depressed 6.0 million-unit rate at the end of 1974 to a 7.2 million-unit annual rate in February 1975. This increase, however, represented largely borrowed demand, and sales slipped back after manufacturers in general had withdrawn their offers of rebates. Hence auto sales on the average were lower in the second quarter than in the first despite the large tax stimulus in the spring.

As inflationary fears gradually moderated, there appeared to be an improvement in the consumer outlook, judging by various attitudi-

nal surveys. Sales of U.S.-made autos picked up again and reached an 8 million annual rate in the last quarter of 1975. However, sales of imported cars slowed dramatically from a 1.7 million-unit annual rate in the first quarter to a 1.3 million rate in the fourth, reflecting intense competition from domestically produced cars as well as periods of inventory shortages at foreign car dealers.

Unlike demand for autos, real expenditures for furniture and appliances and for nondurable goods responded almost immediately in the spring to the strengthening of the economy and to the tax reductions. Real outlays for furniture and appliances rose about 4 per cent in the second quarter, and real spending for nondurable goods also rose in that period. For the year as a whole, increases in real buying of food and apparel were the main factors that caused total purchases of nondurable goods to expand.

Higher real outlays for services, including utilities, also contributed somewhat to the recovery—with spending in real terms up almost 2 per cent from the last quarter of 1974 to the corresponding period in 1975.

Housing

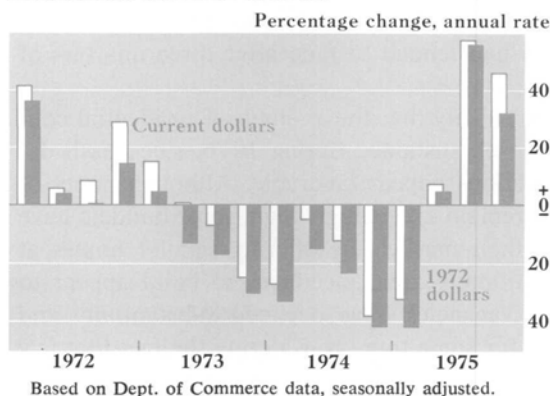
By the first quarter of 1975, private housing starts had completed the steepest and most protracted decline since World War II—to an annual rate of 1 million, from a peak annual rate of 2.4 million units reached toward the end of 1972. During the remainder of 1975 they advanced by nearly 40 per cent from this low.

The rate of improvement in the production of new dwellings during the last three quarters of 1975 was broadly similar to that in other major cyclical recoveries during the postwar period. Even so, the seasonally adjusted annual rate of starts in the fourth quarter of 1975 was still running just short of 1.4 million units—below long-run potential demand as estimated from projected household formations and net removals of existing dwellings.

Factory shipments of new mobile homes for domestic use also showed some recovery as 1975 progressed and for the year as a whole reached a total of 216,000 units. At that level, however, such shipments were no larger than they had been in the mid-1960's and were some 60 per cent below their 1972 high.

While multiple-unit structures shared in the increase in housing

Residential fixed investment



construction activity, this segment of the industry remained quite depressed throughout 1975. Such starts totaled only 270,000 units—the lowest number since the 1950's. The fact that there were so few multifamily starts reflected the financial difficulties of builders of such projects, the heavy volume of units still under construction when the year began, continued weakness in consumer demands for condominiums, and a general inability to achieve rent levels sufficient to cover the rising costs of development and operations.

Single-family housing starts, on the other hand, totaled nearly 900,000 during the year. Such starts benefited not only from the relatively smaller degree of overbuilding experienced during the earlier boom but also from Federal Government programs designed to provide below-market interest rates for some buyers. In addition, the new-home market was stimulated to some extent by the availability of special income tax rebates on purchases made before 1976 from the overhang of dwellings held in builder inventories in the early spring of 1975. Finally, the cost of home mortgage credit declined somewhat during the year and loan availability improved, reflecting very strong inflows of funds to thrift institutions during 1975.

As 1976 began, the number of dwelling units under construction was still at the lowest level since 1971, suggesting the possibility that support from residential construction investment to the general economic upturn might be stronger and more sustained than usual for

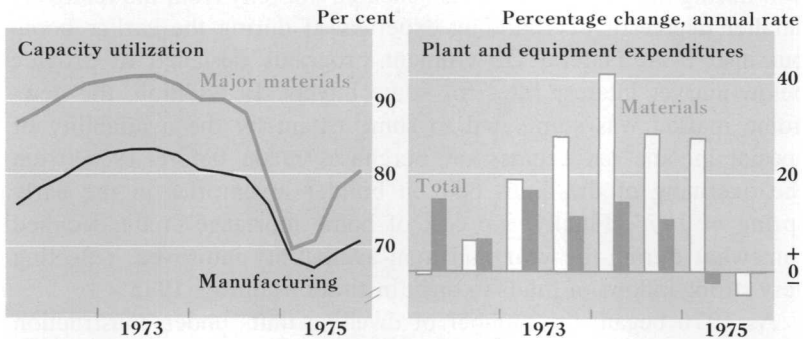
this stage of a recovery. In previous cyclical recoveries, when housing starts had clearly led the general upturn, the stimulus provided by residential production had tended to fade after three quarters of general recovery.

This time it seems more likely that the strength of residential construction activity will be well sustained during 1976, since both demand and financing conditions appear favorable. Although prices of new single-family homes remain exceedingly high, some builders have broadened the range of their markets by offering smaller homes at lower prices. In the multifamily area, incentives to build appear to be improving, as rental vacancies have declined substantially and probably will remain low for some time, considering the fact that few additional units have recently been under construction.

Business fixed investment

Capital outlays weakened sharply in the second half of 1974 and continued to decline as the economic recovery got under way in the second quarter of 1975. By the end of 1975, however, capital spending appeared to have bottomed out and was beginning to contribute modestly to the recovery. For 1975 as a whole, capital outlays by business were about unchanged in current dollars from 1974, but were down almost 12 per cent in real terms. Following the pattern of the

Utilization and business investment



Capacity utilization, F.R. data, seasonally adjusted. Plant and equipment expenditures, Dept. of Commerce data; materials include the primary metals; stone, clay, and glass; textiles; paper; chemicals; and petroleum industries.

previous 4 years, spending was weaker for structures than for equipment.

The cyclical reduction in real business fixed investment was somewhat larger in 1974–75 than in the 1957–58 downturn and was much larger than in most previous postwar business cycles. Moreover, the timing of the upturn in such spending came a bit later than usual. Real capital outlays did not begin to increase until late 1975 after having declined 17 per cent from their peak in the first quarter of 1974. The level of capital outlays was affected not only by cyclical developments—including some previous overbuilding of offices and shopping centers—but also by dislocations ensuing from the oil embargo and by partially related interruptions in the investment plans of electric utilities.

Because final demands were sluggish, the manufacturing industry as a whole operated at relatively low rates of capacity throughout 1975. Even though there were several developments that would normally have had a favorable impact on investment—such as the increased investment tax credit, a substantial recovery in corporate profits, and moderating inflation in capital goods prices—firms were continuing to be very cautious about adding to capacity as 1976 began.

As in the previous 2 years, plant and equipment expenditures in 1975 increased more in the manufacturing sector than in other industry groups. Much of the strength continued to be concentrated among materials producers, where physical capacity was raised by about 4 per cent, probably more than in most other industries. The expanded investment outlays of such producers reflected both the capacity constraints that had been evident before the recent recession and the need to comply with environmental regulations.

Utilization rates at durable goods producers remained at the depressed level reached in mid-1975. During the year the auto, rubber, and electrical machinery industries all reduced their investment spending. Outside of manufacturing, weakness was particularly evident in electric utilities, where capital spending decreased in 1975 after having maintained an average annual growth of 14 per cent from 1962 to 1974. Communications and commercial firms also cut back on capital spending in 1975.

Evidence from such sources as the Commerce Department's year-

end survey of plans for new plant and equipment expenditures in 1976 suggests that a vigorous recovery in business fixed investment may not be forthcoming over the near term. Further evidence of modest near-term prospects is provided by the year-end weakness in such leading indicators as construction contracts and new orders for capital goods. On the positive side, the rapid recovery in corporate profits is serving to ease substantially the liquidity problems that had curtailed investment earlier, while the strengthening of market demand will tend to encourage more optimistic evaluations of future corporate needs. Financing conditions are also more favorable, particularly in the stock markets where prices rose sharply in early 1976.

All of the surveys of investment intentions show that producers of materials—especially of nondurable materials—should continue to be a source of relative strength in 1976. Utilities are also planning sizable increases in capital spending, in view of the recovery in demand, the start that has been made in sorting out the problems of energy and environmental impact, and the improvement in their financial positions.

Net exports

The value of U.S. net exports of goods and services in 1975—excluding Federal interest payments to foreigners—amounted to \$21 billion, the largest on record. Early in the year net exports were a substantial factor helping to cushion the decline in domestic activity; after midyear they continued at very high levels, although they receded slightly from their second-quarter peak values. Most of the increase in net exports occurred in merchandise trade flows, which were dominated by cyclical developments both at home and abroad. Services accounts showed little net change during the year.

Mirroring the intense inventory liquidation of early 1975, the volume of merchandise imports fell 20 per cent between the fourth quarter of 1974 and the second quarter of 1975. With the sharp domestic recovery in the latter half of the year, imports picked up correspondingly.

Merchandise exports held up rather well in the face of reduced economic activity abroad, to some extent because the declines abroad were generally somewhat milder than those in the U.S. economy. In part, the stability of exports was due to the high level of capital goods

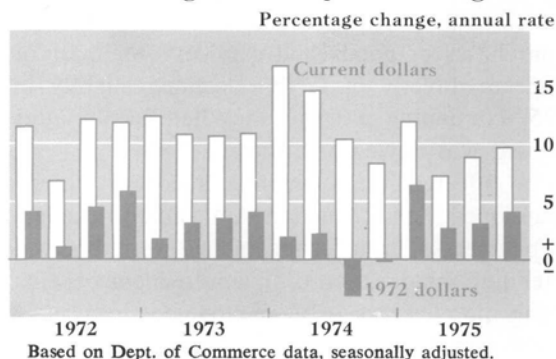
shipments (which tend to lag behind the normal cycle) and to the large amounts of grain shipped to the Soviet Union late in the year. Also, U.S. exports to oil exporting countries increased significantly for the second year in a row. More generally, the relative improvement of U.S. price competitiveness played a key role, reflecting the facts that the dollar exchange rate had depreciated significantly since the early 1970's and that U.S. inflation rates, while high, were still lower than the average for other industrial countries.

State and local governments

During the 5 years preceding 1975, real purchases of goods and services by State and local governments had risen by about 3.5 per cent annually and growth in employment had averaged 4 per cent. In 1974 this rate of expansion slowed as budgets came under pressure due to rising prices and the slower growth in receipts. The "operational" budget (a budget measure that includes all State and local government transactions except the net savings in social insurance funds) moved from a moderate surplus in 1973 to a deficit in 1974.

Difficulties of these governments were accentuated in 1975 as the recession caused a continued slowing of tax receipts, particularly during the early part of the year. Moreover, as the financial problems of New York City, of New York State agencies, and of some other

State and local government purchases of goods and services



governmental units heightened the concern of investors, municipal borrowing costs increased across the country.

The psychological effects of the "New York City crisis," along with the more general fiscal pressures on State and local governments, apparently caused many units to tighten their budgets. As a result, after recovery had begun in the spring of 1975, the growth of total real purchases remained well below the pace during the comparable period in the 1958 cyclical expansion.

Budgets for State and local government construction bore the brunt of the cutback—as might be expected given the postponability of these outlays and their sensitivity to credit conditions. Real spending for structures was down almost 6 per cent for the year, whereas outlays for employee compensation registered a 10 per cent nominal gain, and total employment grew by 5 per cent. The latter increase was attributable in part to the addition of public employment workers under Federal grant programs. These additions averaged about 310,000 for the year. Altogether, grants-in-aid from the Federal Government rose 24 per cent in 1975 and provided major support to State and local governments.

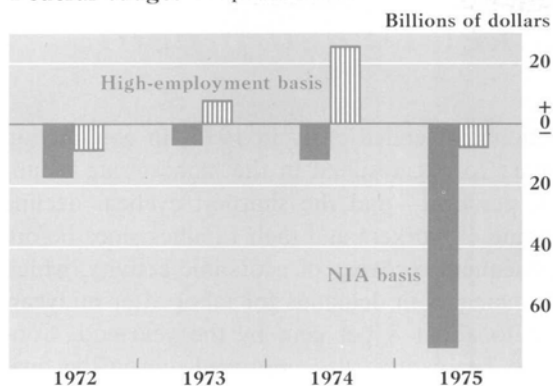
The operational deficit in the State and local sector, which had emerged in 1974, worsened during the first quarter of 1975, but then moved to a modest surplus as spending cuts became effective and receipts were stimulated by the economic recovery. This improvement should carry over into 1976 and help to lessen the financial hardships of these governments.

Federal Government

Federal Government purchases of goods and services—the part of U.S. spending that appears directly in GNP—declined slightly in real terms during 1975, continuing a trend that had begun after 1968. Military employment was down somewhat.

Federal fiscal actions affected the economic recovery chiefly through the already mentioned Tax Reduction Act and the cyclical expansion in transfer payments. Transfer payments were boosted early in the year by extending the duration of unemployment benefits to 65 weeks, by widening the coverage of unemployment insurance, and by increasing the public employment program.

Federal budget Surplus or deficit



Calendar-year data, from 1976 *Economic Report of the President*, p. 55.

The Federal budget deficit (NIA basis) reached a peacetime high annual rate of \$102 billion in the second quarter of 1975, when a substantial portion of the payments under the Tax Reduction Act were made. For the year as a whole the deficit averaged about \$74 billion. Fiscal policy was considerably more stimulative in 1975 than in preceding years, as illustrated by the marked shift in the high-employment budget, from a \$25 billion surplus in 1974 to an \$8 billion deficit in 1975.

Labor Market Developments

The economic contraction that ended early in 1975, in conjunction with powerful inflationary forces, resulted in the highest rate of unemployment—nearly 9 per cent—and the sharpest cyclical decline in the economic well-being of workers and their families since before World War II. The subsequent recovery of economic activity, which was reflected in strong increases in demands for labor after midyear, reduced unemployment to about 8 per cent by the year-end. Consumer purchasing power, per capita, also improved during the final three quarters of 1975, but because of the depth of the recession and the continued substantial pace of inflation, by the fourth quarter it still was below prerecession levels.

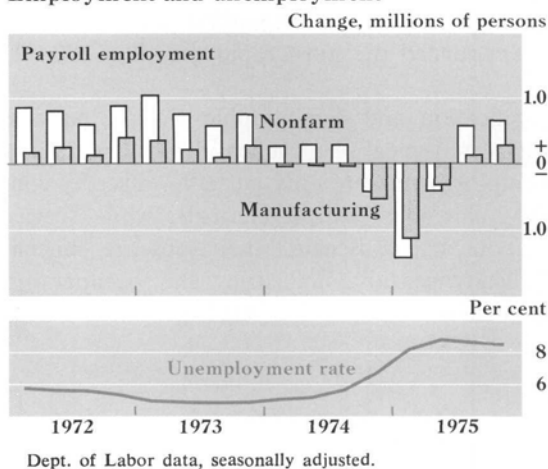
The labor market response to the 1974–75 downturn in business activity differed markedly from typical behavior in previous postwar recessions. Wage rate increases and labor force participation—both of which have been significantly affected by inflation, and the especially steep increases in costs of food, energy, and health care—continued at high rates, despite the large rise in unemployment. Past recessions had been instrumental in much more extensive moderation of wage rate growth and had typically resulted in some decline of labor force participation.

The atypical behavior of participation and wage rates also may be attributable in part to the structure of countercyclical job-creation and income-transfer programs. The scale of Federally funded job-creation programs was expanded, and direct payments to jobless workers under the unemployment insurance system (both regular and special programs) were nearly tripled to an annual rate of almost \$19 billion. Such programs may tend to retard labor force exit and to discourage the taking of lower paying and less desirable jobs.

EMPLOYMENT: CONTRACTION AND REVIVAL

Nonfarm payroll jobs declined 3.1 per cent from their peak in October 1974 to the trough in June 1975, a smaller relative drop than during the comparable period of the 1957–58 downswing. Job-creation programs sponsored by the Federal Government, which

Employment and unemployment



funded more than 300,000 jobs in State and local governments, and the greater concentration of the work force in occupations that are less prone to cyclical layoffs helped to offset the deep cuts in employment in the goods-producing industries.

Nondurable manufacturing employment fell 6.5 per cent from October 1974 to June 1975; and in contract construction, jobs fell by more than 12 per cent during the same period and continued to decline during the remainder of 1975. Job losses in these two sectors were much greater than during 1957-58. As is usual in a recession, employment in the service-producing sectors was much less affected; growth in service-industry jobs continued during the contraction—nearly offsetting short-lived declines in trade, transportation, and public utilities.

Among goods-producing industries, employment gains in the recovery phase of the cycle occurred first and were relatively strongest in nondurable manufacturing; between June 1975 and the end of the year, half of the nearly 600,000 jobs that had been lost had been regained. Substantial increases were registered in textiles and apparel, where inventories had previously been depleted owing in part to improved demand stimulated by the spring tax reductions. In contrast, factories producing durable goods had restored only

about a sixth of the jobs lost during the recession. Private service-producing employment also resumed its expansion after midyear; medical care payrolls experienced the most rapid growth—200,000 jobs during the year.

By occupational classification and demographic groups, patterns of employment reduction were typical of a cyclical downswing. Sharp declines in blue-collar employment were only partially offset by continued growth of white-collar jobs (except clerical), while service employment remained about stable. Because their jobs are concentrated in the most cyclically sensitive industries and occupations, layoffs were more numerous among men than among women during the downturn.

UNEMPLOYMENT AND LABOR FORCE

The sharp contraction of employment in combination with continued substantial growth of the labor force—especially among married women—pushed the unemployment rate to 8.9 per cent in May 1975, a 35-year high. Growth of the civilian labor force was 1.5 per cent in 1975, unusually large for a period of high unemployment. In contrast, the labor force had increased by only 0.4 per cent in 1958. In part, the relatively rapid recent growth was a function of the large increase in the working-age population, which rose by 2.7 million (1.8 per cent) in 1975 compared with 1.4 million (1.3 per cent) in 1958. In addition, however, a large number of married women entered the labor force, apparently in an attempt to supplement declining family incomes. Real per capita disposable income, eroded first by inflation and then by a steep rise in unemployment, fell 4.6 per cent over the five quarters ending March 1975. This was the deepest decline since before World War II. The largest previous postwar decline—during the 1957–58 recession—had amounted to 2.2 per cent.

From October 1974 the unemployment rate rose 2.8 percentage points to its peak in May 1975. Although the jobless rate nearly doubled for men aged 25 and over, most of whom were experienced workers with family responsibilities, it was still below its 1957–58 peak. In contrast, the unemployment rates of adult women and teenagers—frequently second earners in the household—reached postwar highs.

As is characteristic of the initial stage of a recovery, the jobless rate declined rather slowly in 1975, falling only 0.6 of a percentage point from its May peak to 8.3 per cent in December. Improvement was widespread by industry and occupational groupings, and unemployment rates for most demographic groups also fell. By the end of the year the jobless rate for household heads had declined to 5.7 per cent while the rate for those covered by unemployment insurance (regular programs) had dropped to 4.9 per cent.

WAGES AND COLLECTIVE BARGAINING

Despite high unemployment, wage rates continued to rise rapidly during 1975. The hourly earnings index for production workers in non-farm private businesses—which approximates wage-rate trends—rose by 8.2 per cent in 1975, somewhat less than the 9.3 per cent increase recorded in 1974 but well above the rise in every other year since this series was begun in 1964. The deceleration that did occur reflected the abatement of inflation, extensive slack in many sectors, and a relatively light bargaining schedule during the year.

The high rate of wage gain in the midst of a severe recession illustrates the importance of consumer price trends in the wage-determination process. Many workers receive cost-of-living wage adjustments regardless of the state of the labor market. Strong labor unions, for example, are likely to be able to maintain real wage rates—albeit after a significant delay—in periods of simultaneous high joblessness and rapid inflation.

Major collective bargaining negotiations covering 2.8 million workers were conducted in 1975. They provided first-year wage adjustments of 10.2 per cent on the average, compared with 9.8 per cent in 1974. Fringe benefits, however, apparently continued to increase faster than wages as first-year wages and benefits combined (in contracts covering 5,000 or more workers) rose by 11.2 per cent—up slightly from 10.7 per cent in 1974. In addition, cost-of-living escalator clauses were added to 92 major contracts covering nearly 700,000 workers in 1975; such clauses now cover about 60 per cent of workers in major collective bargaining units.

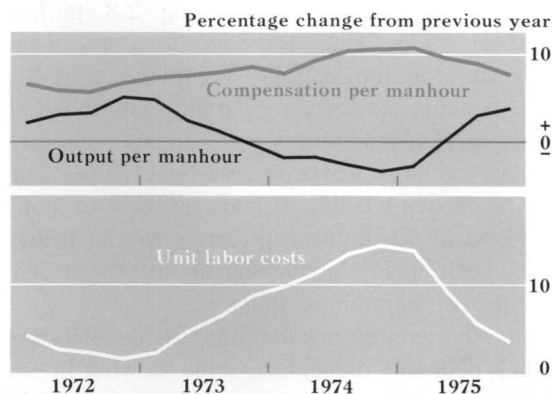
Outside of new collective bargaining negotiations, the decelerating pace of inflation and slack demands did induce some slowing in the rate of wage gain. In manufacturing, despite being about two-thirds

unionized, the rate of wage growth decelerated from 10.3 per cent in 1974 to 8.8 per cent in 1975. Wage pressures also moderated somewhat in the less unionized trade and service industries, with wages rising 7.7 per cent during 1975, compared with about 9 per cent the prior year. In the construction industry, where the jobless rate averaged nearly 19 per cent, wages rose by less than 6 per cent in 1975.

COSTS

Despite continued rapid growth of wages, the upward trend in unit labor costs in the private nonfarm economy decelerated during 1975. From the fourth quarter of 1974 to the fourth quarter of 1975, the unit-cost index rose less than 4 per cent, compared with 14 per cent during the preceding four quarters. This improvement was due almost entirely to the rebound in labor productivity. Output per hour had fallen in seven of the eight quarters ending with the first quarter of 1975; the cumulative drop of 4.5 per cent was the largest of the postwar period. During the recovery in the last three quarters of 1975, output per hour rose by 4.1 per cent. While this rate of increase is about normal for the initial phase of a recovery, the earlier decline in productivity had been so deep that output per hour at the end of 1975 was still well below its postwar trend.

Productivity and costs



Based on seasonally adjusted data from Dept. of Labor.

Price Movements

Inflation was less pervasive and less severe during 1975 than during the two preceding years. A widespread deceleration of price increases occurred in late 1974 and in early 1975. For 1975 as a whole the rate of inflation at the final demand level was cut about in half. About midyear, however, a surge in the prices of foods and gasoline and a sustained upward movement of industrial prices caused some step-up in the rate of inflation.

Despite the vast improvement from the 1973–74 experience, inflation continues to be a severe problem and a threat to the durability of the recovery. Over the second half of 1975, consumer prices rose at a 7.5 per cent annual rate—historically very high, and especially so in light of the severity of the contraction and the extent of underutilization of workers and plant capacity.

3. Changes in consumer prices

In per cent

Group	Relative importance, Dec. '75	Annual rate over half year ending—			
		June '74	Dec. '74	June '75	Dec. '75
All items.....	100.0	12.3	12.2	6.6	7.5
Food.....	24.7	11.1	13.0	4.7	8.2
Fuel and utilities.....	5.2	21.3	12.0	11.4	10.9
Private transportation ¹	11.7	19.6	9.6	7.4	11.8
Medical care.....	6.4	11.3	13.7	11.2	8.5
Shelter ²	21.4	10.1	12.6	8.9	5.7
Household furnishings and upkeep.....	7.4	19.5	20.2	7.4	5.4
Reading and recreation.....	5.1	9.0	10.2	5.8	5.2
Apparel and upkeep.....	9.2	9.6	7.8	.7	3.9

¹ Includes gasoline and motor oil.

² Includes rent, home purchases, mortgage interest, taxes, insurance, maintenance, and repair.

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

This high rate was associated with a number of factors, including a temporary surge in food and gasoline prices, “pass-through” of earlier increases in costs, a resumption of rising prices for some industrial materials, the end of excess inventory liquidation in certain sectors, and—in several industries—pricing designed to restore profit margins. Whether this pattern represents further structural correc-

tions of cost-price imbalances that had developed during the period of wage-price controls and the subsequent intense inflation in costs of materials and labor, or a step-up in the underlying rate of inflation, remains to be seen.

SOURCES OF PRICE DECELERATION

The slowing in the over-all rate of price increase in 1975 was attributable in part to amelioration of some special market conditions that had contributed to the intense inflation of 1973 and 1974. Four developments were instrumental in the over-all improvement of prices in 1975:

- Roughly coincident, severe recessions in the major industrial nations reduced demand pressures on prices of internationally traded materials and commodities.

The easing of international and domestic demands late in 1974 finally moderated the most severe peacetime rise of industrial materials prices since World War II. After having risen by about 28 per cent in 1974, in large part because of the steep rise in the prices of fuel and energy, wholesale prices of crude and intermediate materials nearly leveled off in the first half of 1975, and then moved up at a much reduced rate in the second half.

A shrinkage of 12.5 per cent in demand for imported products, along with the increased strength of the dollar and reduced inflation in foreign markets, contributed to the improved price performance in the United States. Exclusive of fuels and lubricants, average prices for foreign goods rose 10 per cent compared with 27 per cent in 1974. U.S. exports of merchandise declined only 3 per cent in real terms, and average prices of exports rose by 12.5 per cent compared with almost 30 per cent during 1974.

Price increases for crude oil and refined products and for competitive types of energy were smaller.

Although rising costs of fuel and energy continued as a major factor sustaining inflation in 1975, pressures from this source were much less intense than in 1973-74. Pressures on production costs, arising from inputs of energy raw materials, were reduced. Price increases for crude oil in domestic markets; for imported crude, which

accounts for about one-third of domestic consumption; and for refined oil products ranged from 15 to 20 per cent—all sharply less than in 1974. Other energy prices behaved unevenly, in part because of the extent of regulation and demand factors.

Record farm crops helped to dampen the rise of consumer food prices.

Record domestic harvests of corn and wheat helped to prevent another very substantial increase in domestic and international food prices. Consumer food prices rose about 6.5 per cent, about half the rise in 1974. This increase was attributable mainly to higher marketing and processing costs. Late in 1975 output of livestock began to increase, reflecting the renewed profitability of livestock feeding, and prices began to recede from their earlier advanced levels.

A cyclical reduction of labor cost increases, resulting mainly from a recovery-induced rebound in productivity, helped to hold inflation to a more moderate rate.

The sharp cyclical rebound of labor productivity and the moderation of wage gains mentioned earlier helped to bring about an abatement of inflationary pressures in 1975. Unit labor costs, which had risen 14.4 per cent from the fourth quarter 1973 to fourth quarter 1974, rose at a rate of only 3.8 per cent during 1975—alleviating much of the cost pressure that had pushed up prices during the prior year. In addition, the recession stimulated price restraint at each stage of the production chain as temporary discounts and rebate programs were used to clear inventories of both materials and finished goods.

CONSUMER PRICE PATTERNS IN 1975

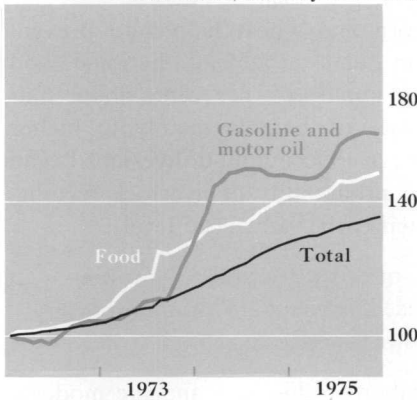
All broad measures of prices reflected an abrupt diminution of inflation early in 1975. Easing was evident across a broad spectrum of goods and services as rates of increase in the consumer price index were halved from their 1974 experience. Prices of food and apparel fell during the early months of 1975 as food supplies rose and as apparel prices were discounted to clear inventories.

Energy prices provided a reduced but still major impetus to inflation in most of 1975. Consumer costs of fuel and utilities rose about

11 per cent compared with 16.6 per cent during 1974. The rising price of gasoline, coupled with increases in costs of auto insurance, servicing, and purchases, drove prices of personal transportation up by 9.6 per

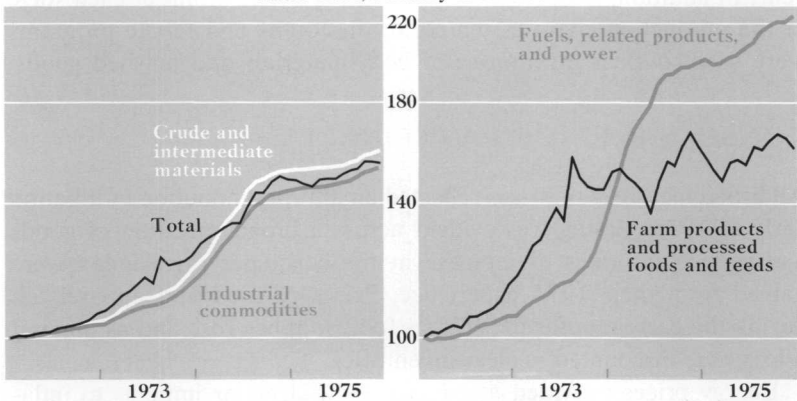
Consumer prices

Ratio scale, January 1972=100



Wholesale prices

Ratio scale, January 1972=100



Dept. of Labor data, seasonally adjusted. Crude and intermediate materials exclude foods.

cent. Costs of medical care also rose at a rapid pace—by almost 10 per cent—during the year.

With household budgets forced to adapt to high and rising costs for basic necessities, consumers were very sensitive to prices for more discretionary items. Selective buying coupled with vigorous efforts by businesses to liquidate inventories contributed to greater moderation in price growth for apparel and household durable goods.

Consumer costs for shelter rose less in 1975 than during 1974 as a result of slight declines in mortgage interest rates and of more moderate increases for maintenance and repair.

PRICE PATTERNS AT WHOLESALE

The wholesale price index for all items was about unchanged in the first half of 1975 for the first time since the period of price controls. Prices for industrial commodities rose 6 per cent over the year; slack demand and liquidation of inventories kept price increases at a reduced level early in the year, but after June prices of such commodities rose at an annual rate of 8.7 per cent.

During 1974 prices of industrial materials had accelerated to a rate of nearly 30 per cent, thereby contributing to sharp advances for finished goods. In 1975, however, they rose only about 5 per

4. Changes in wholesale prices

In per cent

Group	Relative importance, Dec. '75	Dec. 1973–Dec. 1974	Annual rate during half year ending—	
			June 1975	Dec. 1975
All commodities	100.0	20.9	.3	8.3
Farm and food products	22.8	11.0	−8.0	8.1
Industrial commodities.....	77.2	25.6	3.4	8.7
Materials, crude and intermediate ¹	48.3	28.2	2.1	8.6
Finished goods:				
Consumer nonfood.....	18.6	20.5	3.9	9.6
Producer goods.....	11.8	22.6	8.4	7.9
MEMO:				
Consumer foods.....	11.1	13.0	3.8	7.2

¹ F.R. estimates.

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

cent, largely because of reduced demand. Among items that showed increases were fuel—with increased costs passed on in higher prices for electric power—and lumber and plywood, which reflected the optimistic outlook for residential construction.

After midyear, prices of crude and intermediate materials together rose at an 8.6 per cent annual rate, up from a 2.1 per cent rate in the first half. Similarly, prices of consumer finished goods excluding food, which had decelerated sharply in the first half of 1975, rose at higher rates in the third and fourth quarters, reflecting largely increases for gasoline, home heating oil, tires and tubes, and leather footwear. Improved demand permitted “pass-through” of prior cost increases for passenger cars, and this boosted both wholesale and retail prices.

Suppliers of plant and equipment were caught in a tight cost-price situation in 1975 as real investment in plant and equipment eased during most of the year. Because of the extremely large increases in costs of both materials and labor in 1974, many investment goods firms had been placed in a high-cost, low-profit position before the contraction. As demands declined and price competition became more pronounced in 1975 some producers literally abandoned their businesses; this was especially true in construction, where real spending on structures was at the lowest level since 1961.

5. Changes in prices of plant and equipment

In per cent

Group	1974		1975	
	H1	H2	H1	H2
IMPLICIT DEFLATORS				
Business fixed investment.....	12.3	18.9	10.6	5.5
Structures.....	24.5	23.6	4.2	3.1
Durable equipment.....	7.9	22.2	15.8	6.4
WHOLESALE PRICE INDEXES				
Producers' finished goods.....	16.3	28.5	9.9	7.7
Machinery and equipment.....	17.2	29.0	10.9	6.1
Agricultural equipment.....	14.2	32.7	11.7	7.5
Metal-working equipment.....	20.6	31.9	11.4	6.6

NOTE.—Annual rates of change calculated from quarterly averages, with comparisons being based on last quarter of preceding and last quarter of current half year. Basic data from Dept. of Commerce and Dept. of Labor.

The contraction of demand, coupled with more moderate wage increases for construction workers, resulted in an average price rise of only 3.3 per cent over the year for nonresidential structures. Continued rapid advances in equipment prices through midyear reflected in part strong demands and near-capacity operations in highly specialized areas, including pollution control equipment, oil drilling and coal mining equipment, and agricultural equipment.

AREAS OF CONTINUING CONCERN

At the end of 1975 there were several threats to the reestablishment of more stable prices. One was the longer-run threat of a resumption of inflation induced by excess demand. Others included uncertainty about the depletion of worldwide inventories of agricultural products; uncertainty about the future course of oil prices; and the jockeying among factors of production (and individual producers) designed to restore prior income positions.

Much of the improvement in the food price outlook is attributable to the record production of U.S. farmers in 1975. Because of a very poor grain harvest in the Soviet Union, however, international grain stocks are probably little changed from 1974. If 1976 does not provide larger world harvests, domestic food prices may again be subject to upward pressures from international demands.

The Energy Policy and Conservation Act of 1975 set guidelines for the movement of domestic oil prices over the next 3 years, but such actions will have little influence on decisions of the Organization of Petroleum Exporting Countries. Thus one major impetus to price changes for gasoline, fuel oil, and other petroleum derivatives remains unknown. Because energy costs are an important factor in the availability and price of many goods and services, their continued rise virtually ensures some upward pressure on costs and prices generally, and any reacceleration would likely exacerbate the difficulties of lowering the over-all rate of inflation.

The events of the last several years have had more than just temporary effects on the economy. The experience with price and wage controls and some public comment as to the possible desirability of restoring such controls in one form or another have very likely quickened and strengthened the impact of expectations on economic be-

havior. The rapid and strong increases in prices of fuels and commodities have set in motion a process of reallocation and readjustment in the economy that will proceed for an extended period. The 1973–74 economic decline and the uncertainty caused by the drop in real income has set the stage for attempts during the recovery by the recipients of wages and profits to regain their real income and enlarge their relative shares. All of these factors can be expected to have impacts not only on price behavior but also on the speed and strength of economic recovery.

Monetary Policy and Financial Markets

Monetary policy in 1975 sought to create money and credit conditions that would foster economic recovery and permit an unwinding of the financial strains carried over from earlier years. Since the need for further progress in dampening inflation remained urgent, however, great care had to be taken to avoid overly aggressive Federal Reserve actions to ease credit markets and stimulate expansion in money and credit supplies that might prove counterproductive. In these circumstances the System elected to pursue a moderate course of monetary expansion.

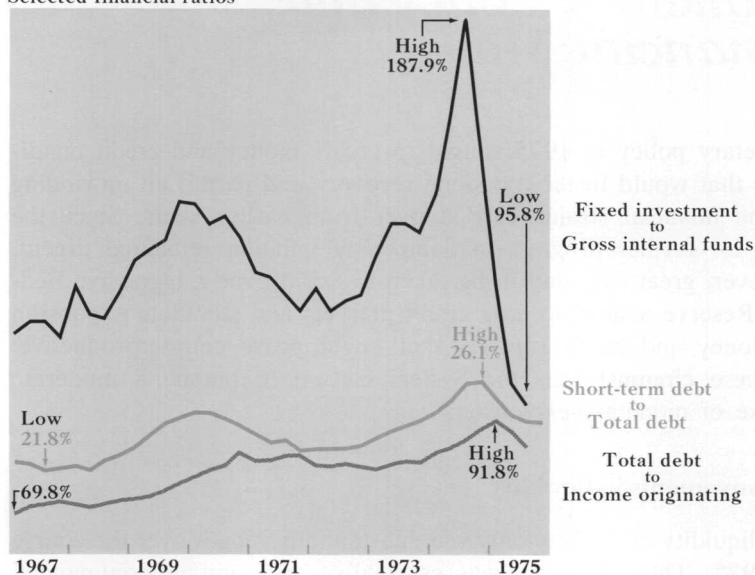
Improvements in liquidity

The liquidity of the economy was substantially rebuilt over the course of 1975. The rebuilding was especially rapid among nonfinancial businesses, where drastic cutbacks of inventories during the first half of the year and subsequent sharp increases in profits generated a major improvement in cash flow and a consequent lessening of reliance on external financing. With access to capital markets also greatly improved, companies placed primary emphasis on long-term financing and repaid nearly \$14 billion of short-term debt—mostly at commercial banks. The chart at the top of the following page indicates the extent to which business financial ratios improved over the year.

The combination of easier monetary policy and record reductions in business borrowing also made it possible for commercial banks to achieve a sizable build-up in liquid assets. In addition, banks were able to reduce their reliance on volatile, high-cost sources of funds and to achieve some general improvement in capital ratios. The chart on page 45 indicates the relative dimensions of these changes. To a considerable extent the increased liquidity of banks also reflected a general shift in management strategy to more conservative standards, following a decade of emphasis on the expansion of assets and the improvement of earnings performance.

Nonfinancial corporations

Selected financial ratios



Gross internal funds include undistributed profits, inventory and capital consumption valuation adjustments, and capital consumption allowances. Short-term debt includes short-term market instruments and 60 per cent of total bank loans. Income originating is the total of employee compensation, net interest, and profits adjusted for inventory valuation originating in nonfinancial corporations.

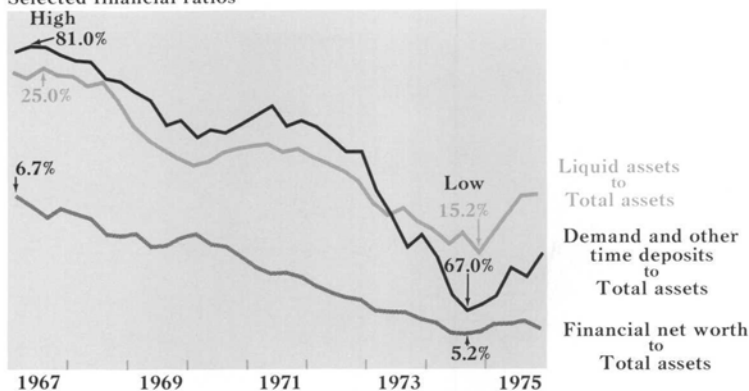
Debt from flow of funds accounts; flows from GNP accounts. Seasonally adjusted data with the flows at annual rates.

Other types of financial institutions also placed more stress on prudent management policies. Nonbank thrift institutions, for example, used their sharply accelerated inflows of funds initially to reduce high-cost borrowing, and over much of the year they continued to stress additions to their liquid asset positions.

This curative process was essential to the restoration of a sound financial basis for economic recovery, but it was not without some costs. Loan rates tended to remain somewhat higher, and other lending terms eased less, than in earlier economic recoveries. Moreover, lender perception of risk in both private and public markets was heightened, as some borrowers with marginal credit ratings continued

Commercial banking

Selected financial ratios



Commercial banking consists of chartered commercial banks, their domestic affiliates, Edge Act corporations, agencies of foreign banks, and banks in U.S. possessions. Liquid assets are U.S. Govt. securities, vault cash, and deposits at F.R. Banks. Demand and other time deposits are total deposits less large negotiable CD's. Financial net worth is financial assets less financial liabilities.

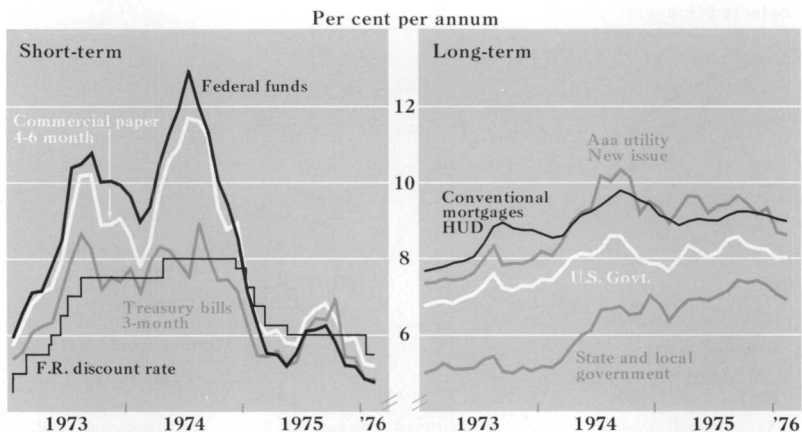
Seasonally adjusted data from flow of funds accounts.

to experience difficulty in covering their financial requirements—evidenced most dramatically by the case of New York City. Over all, however, the state of liquidity and the availability and cost of credit improved substantially for borrowers in good financial condition.

Interest rate declines

The development of more accommodative credit conditions was especially evident in the general decline of short-term interest rates. The short-term rate that reflects changes in the thrust of monetary policy most directly is, of course, the Federal funds rate—the rate at which banks borrow immediately available funds from each other on an overnight basis. Any System-easing action affecting the total supply of bank reserves influences the Federal funds rate promptly and directly. By early 1976 the funds rate had dropped to around $4\frac{3}{4}$ per cent, some $3\frac{3}{4}$ percentage points below the level at the end of 1974. And other short-term rates had declined by roughly commensurate amounts over this period—as the chart on page 46 shows.

Interest rates



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

While long-term rates in early 1976 were also significantly below their levels of late 1974, net declines from those earlier levels occurred mostly in the opening weeks of 1976. During the early months of 1975—when the business recession was still deepening and short-term rates were showing their steepest drop—long-term rates did decline appreciably. But by early spring of 1975 these initial declines had been reversed. The reversal of trend was attributable to several factors—including increased concern about inflation, the heavy volume of borrowing that developed in capital markets from both corporations and State and local governments, and the rate pressures expected to result from an unprecedented volume of Treasury borrowing. Although the Treasury's huge financing needs proved to be more readily managed in practice than in prospect, long-term rates remained relatively high over the rest of the year, partly because investors were anticipating cyclical recovery in interest rates and—in the tax-exempt market—because of generalized market concern about the possible consequences of a New York City default.

The easing of long-term rates in early 1976 was to some extent simply a reflection of the further drop in short-term rates to new cyclical lows. However, several other significant influences were involved. Market analysts were generally forecasting a significant reduction in the volume of new corporate and municipal bond offerings during 1976. Market concern about the financing problems of New York tended to diminish with the introduction of Federal assistance. And the consensus forecast of moderate economic growth in 1976 suggested that the outlook for inflation had not worsened as previously feared.

Over the course of 1975, however, the trend of short-term rates was not consistently downward. From mid-June through September the bellwether Federal funds rate rose from $5\frac{1}{8}$ per cent to levels generally above 6 per cent, before turning down again in October. And other short-term rates followed roughly the same pattern—as shown in the chart.

This temporary increase in short-term rates was in part a reflection of the extraordinarily heavy schedule of Treasury borrowing during the spring and summer. In addition, Federal Reserve open market actions for a time exerted upward pressure on the funds rate. The System took this precautionary move to ensure that the extremely rapid second-quarter growth in the monetary aggregates did not persist. Later, when it became apparent that growth in these aggregates had slowed again, the System eased its policy stance. The funds rate then dropped to new lows for the cycle.

Monetary aggregates

The accommodative thrust of monetary policy during 1975 was also reflected in the growth of broad measures of the money stock. M_2 —the measure that includes time and savings deposits at banks other than large certificates of deposit (CD's), as well as demand deposits and currency—expanded by 8.2 per cent, one-half percentage point more than in 1974; and M_3 —which adds deposits at savings and loan associations, savings banks, and credit unions to M_2 —grew by 11 per cent, substantially more than in 1974 (7.1 per cent) or 1973 (9.0 per cent).

In contrast to these broader measures, the narrowly defined money stock (M_1) grew somewhat less in 1975 (4.4 per cent) than in the two preceding years. During much of the year growth in M_1 fell short

of the pace that would have been expected on the basis of past relationships of cash balances to GNP and interest rates. The shortfall was greatest during the latter part of the year, as growth of M_1 in the spring was augmented temporarily by heavy Federal tax rebates and special social security payments.

Because of the relatively slow growth in M_1 and the rapid acceleration in nominal GNP, there was an unusually sharp jump in the income velocity of money during the second half of 1975. This occurred in the context of declining interest rates, suggesting that the public may be managing its financial affairs in ways that require less growth of money to finance economic expansion. Since this development clearly has important, general implications for policy-makers when projecting the amount of money growth believed to be appropriate to the conditions of the economy and the stance of monetary policy, the factors that appear to lie behind the jump in velocity are discussed more fully on pages 54–57.

Policy tools

As usual, monetary policy in 1975 was implemented largely through Federal Reserve open market operations. At critical points, other policy instruments were used to reinforce the thrust of open market actions, particularly while the recession was still deepening. Between late 1974 and mid-May 1975, for example, while other short-term rates were posting their most rapid declines, the Federal Reserve discount rate was cut in four stages—from $7\frac{3}{4}$ to 6 per cent. Then on January 16, 1976, after short-term rates had posted substantial further net declines, the discount rate was cut further to $5\frac{1}{2}$ per cent. These actions were undertaken primarily to maintain the alignment of the discount rate with other short-term rates.

Reductions in member bank reserve requirements were also initiated at several points during the year. The action that released the largest volume of reserves (about \$1.1 billion) was taken in January while the recession was still deepening. This change affected reserves around mid-February and applied across the board to all demand deposits.¹ It was designed to permit further gradual improvement in

¹ Specifically, requirements on all categories of net demand deposits up to \$400 million were reduced by one-half of 1 percentage point, and on deposits of over \$400 million by 1 percentage point.

bank liquidity and to facilitate moderate growth in the monetary aggregates.

During the latter part of May reserve requirements on member banks' Euro-dollar borrowings (Regulation D) and on loans by foreign branches to U.S. residents (Regulation M) were reduced from 8 to 4 per cent. Then in October the requirement on member bank time deposits with an original maturity of 4 years or more was reduced from 3 to 1 per cent. The latter action released about \$350 million of reserves. Finally, in late December the reserve requirement applicable to time deposits having an initial maturity of 180 days or more but less than 4 years was reduced from 3 to 2½ per cent, releasing another \$320 million of reserves in the week beginning January 8, 1976.²

Situation in early 1976

At the start of 1976 ample supplies of funds at reduced interest rates were available to support economic recovery. Outstanding commitments for mortgage loans at savings and loan associations, for example, were at the highest levels since mid-1973—some 50 per cent above the low reached at the cyclical trough. The U.S. Treasury was covering its heavy, continuing burden of cash borrowing at interest costs significantly below those required in 1975, and medium-sized businesses with credit ratings of less than highest quality were gaining better access to bond market financing.

In addition, consumers were making debt-financed purchases of durable goods more freely than during much of 1975. Even State and local governments were borrowing in the securities markets at costs appreciably below those prevailing in late 1975—although a limited number of units, largely in New York State, still had no market access, and investors generally were troubled by the longer-run implications for State and local government financing of the 3-year moratorium on repayment of outstanding New York City notes.

The generally improved economic and financial environment prevailing in late 1975 and early 1976 was highlighted by a strong

² It should be noted that notwithstanding the October and December changes in reserve requirements, individual banks were still required to meet the 3 per cent statutory reserve minimum on their total time and savings deposits.

rally in stock prices. Stocks had risen sharply from their deep cyclical lows of late 1974, as market participants anticipated the pick-up that subsequently developed in economic activity and corporate profits. From late 1974 through 1975 the stock price advance amounted to about 45 per cent; then in the space of a few weeks in early 1976 the uptrend was extended another 14 per cent. The latter move was significantly affected by the still relatively low stock price/earnings ratios implicit in year-end economic forecasts of continued favorable corporate profits. In addition, investor attitudes were being influenced more generally by the prospects for a strong and sustained economic recovery, by some calming of inflationary fears, and by the failure of interest rates to show their usual cyclical rise.

In the key commercial banking sector, institutions in early 1976 were for the most part well situated to meet expected increases in demands for business credit. Banks generally had rebuilt liquidity, made substantial provision for potential loan losses, and improved their capital ratios. Also, by maintaining wider-than-usual spreads of their prime rate over the costs of money market funds, banks had helped to sustain their earnings, despite the over-all cut in business lending and the need to increase reserves against potential loan losses. Data for 1975 for the 50 largest U.S. banking organizations (bank holding companies) reveal that even with provisions for loan losses of \$2.3 billion (an increase of 75 per cent over the 1974 provisions), after-tax earnings increased 7.6 per cent to \$2.8 billion. Although net loan charge-offs for these firms more than doubled to \$1.9 billion in 1975, valuation reserves were increased by more than 15 per cent to \$3.1 billion. And by midyear, substantial improvement was also evident in bank capital ratios for the first time since 1969. Total capital for all insured commercial banks reached \$75 billion as of June 1975, compared with less than \$72 billion at year-end 1974 and less than \$50 billion as recently as 1970.

As money market rates dropped to new cyclical lows in the early weeks of 1976, the prevailing bank prime rate was reduced to 6¾ per cent—the lowest level since the spring of 1973. Even so, bank credit remained relatively costly for prime business borrowers, since wider-than-usual spreads of the prime rate over commercial paper rates were maintained. Moreover, both banks and other financial institutions continued to follow generally conservative policies on

other credit terms. This conservatism reflected both a reaction to past loan losses and the significant potential for further losses still in prospect for many institutions. To some extent, therefore, the process of purging the financial system of the lingering effects of earlier credit excesses and subsequent recession-related difficulties was still incomplete.

MONEY AND CREDIT AGGREGATES

A congressional resolution was passed in late March 1975 requesting the Board of Governors to report quarterly to the banking committees of the Congress to explain Federal Reserve policy and establish the System's prospective growth ranges for the monetary aggregates. The Board's Chairman made his first appearance for this purpose on May 1 before the Senate committee, and alternated between the House and Senate committees at quarterly intervals thereafter.³

In his testimony on May 1 the Chairman specified the following growth ranges for the period between March 1975 and March 1976: 5 to 7½ per cent for M_1 ; 8½ to 10½ per cent for M_2 ; and 10 to 12 per cent for M_3 . In announcing these ranges, the Chairman indicated that the very high rates of unemployment and of idle industrial capacity then prevailing called for monetary growth rates that were relatively high by historical standards. However, he also cautioned against overly rapid monetary expansion in view of the continuing intolerably high rate of inflation.

In his later appearances to discuss growth targets, the Chairman reported that the Federal Open Market Committee (FOMC) saw no economic reasons for basic changes in the numerical ranges initially specified. To maintain the forward-looking perspective of these ranges as called for by the congressional resolution, however, the base periods to which the growth rates were linked were moved ahead one quarter at each reporting. Also, in July the FOMC began calculating its growth ranges from quarterly-average base periods rather than from end-months of quarters as in May. This change was introduced to reduce distortions created by figures for end-of-quarter months, such as June 1975 when the growth rates for money deviated

³ See pp. 113 and 114 for the text of the resolution and pp. 81-113 for the statements made by the Chairman in 1975.

sharply from trend. In October, the ranges for M_2 and M_3 were widened slightly by reducing their lower ends.

While none of these modifications in the mechanics of calculating growth ranges had a significant impact on the Committee's over-all policy posture, the changes did raise the levels of the growth patterns somewhat relative to those initially designated in May. However, over the course of 1975 growth in all of the major monetary aggregates remained within the ranges specified in May.

At the first FOMC meeting in 1976 the Committee reaffirmed its long-run growth ranges for M_2 and M_3 , but the range for M_1 was widened somewhat, to a 4½ to 7½ per cent band. The bottom end of this band was lowered to allow, among other things, for the sizable volume of transfers of funds from demand balances to business savings accounts that developed after mid-November 1975 when commercial banks were first authorized to offer such accounts.

Performance of the aggregates

In the early months of 1975 the deepening recession and a variety of other factors were operating to depress the public's demand for money as narrowly defined. In the first quarter, as Table 6 shows, M_1 grew at less than a 1 per cent annual rate. Broader measures of money, on the other hand, continued to expand significantly—particularly M_3 , which grew at a faster rate than in the latter half of 1974. In the main, this divergence in growth patterns between the narrow and broader measures of money reflected the stimulus to interest-bearing thrift accounts being created by the sharp drop in rates on market securities while rates paid on thrift accounts were generally being held at their regulatory ceilings.

In the 2 months immediately following the Chairman's May 1 report to Congress on the FOMC's prospective growth ranges, the three key measures of money expanded at annual rates ranging between 13 and 16 per cent—substantially in excess of the upper limits of the System's longer-run ranges. This burst in monetary growth reflected in part the more than \$10 billion of Federal income tax rebates and supplementary social security benefits disbursed during the period. It appears that the public held a large part of these cash windfalls in depositary form before making more permanent disposition of the funds.

6. Growth in monetary aggregates ¹

In per cent

Period	Measures of money			Adjusted credit proxy
	M_1	M_2	M_3	
1972.....	8.4	11.2	13.3	11.3
1973.....	6.2	8.8	9.0	11.1
1974.....	5.0	7.7	7.1	9.8
1975.....	4.4	8.2	11.1	4.3
1975—Q1.....	.6	5.6	7.5	5.8
Q2.....	7.4	10.2	12.6	3.6
Q3.....	7.1	10.1	13.3	1.4
Q4.....	2.5	6.1	9.2	6.0

¹ 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 negotiable certificates of deposit at weekly reporting banks.

M_3 = M_2 plus deposits of mutual savings banks, savings capital of savings and loan associations, and credit union shares.

Adjusted credit proxy = Total member bank deposits subject to reserves, plus Euro-dollar borrowings, loans sold to bank-related institutions, and other nondeposit items.

NOTE.—Incorporates revisions in money stock and related measures based on benchmark data for nonmember banks derived from reports of condition through October 1975, as well as revisions in seasonal adjustment factors. Rates of growth derived from daily-average data for quarter relative to those for preceding or year-earlier quarter. Quarterly rates are seasonally adjusted and annualized.

These payments had been expected to push growth in the aggregates temporarily above the System's longer-run growth paths. But when the overshoot proved to be substantially greater than forecast, there was a significant risk that any sustained expansion of the money stock at double-digit rates would erode the progress being made in bringing inflation under control. To help guard against this possibility, the FOMC in early summer took steps to moderate the pace of monetary expansion, and their actions raised the Federal funds rate by about 1 percentage point.

By midyear, the tax rebates and supplementary social security payments had been largely completed. As the public then drew down the excess money balances created by these windfall receipts, money growth slowed abruptly. For M_1 , month-to-month annual rates of growth dropped into the range of 2 to 3 per cent, and for the broader measures growth rates also receded sharply as the quarter progressed.

This process of reducing excess balances had been expected to produce a substantial slowing in money growth during the summer.

But when the slower growth persisted into early fall, it became apparent that factors other than the reduction of excess balances were involved. The System responded by substantially lowering the level of its range of tolerance on the Federal funds rate. Although all of the key measures of money then showed faster annual rates of growth during the fourth quarter than before the Treasury's special second-quarter disbursements, growth in M_1 continued to be far below what might have been expected on the basis of historical relationships to GNP and interest rates. As a result, the increase in income velocity was greater over the second half of the year than at any other time in more than a quarter of a century.

Implications of velocity changes

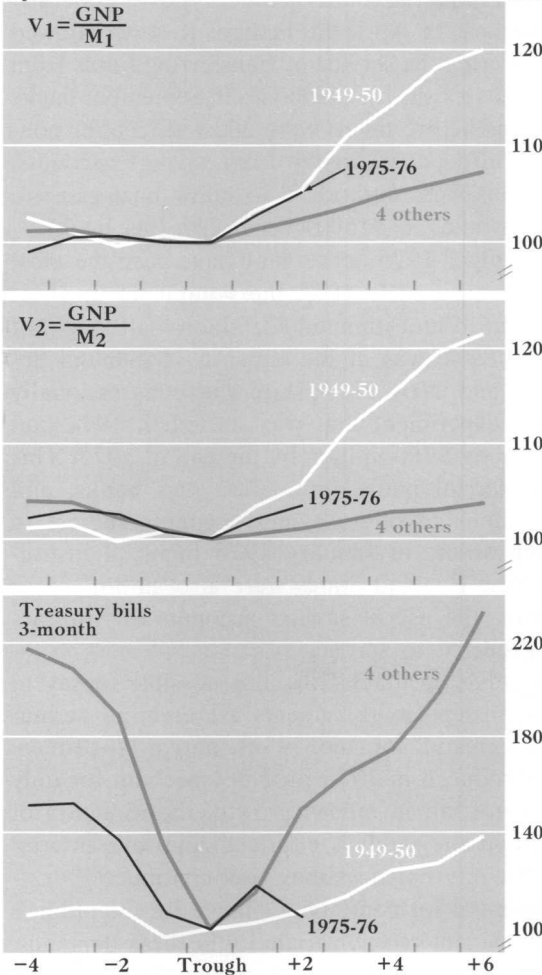
The unusual behavior of the income velocity of M_1 during 1975 is highlighted by the chart. As the top panel shows, the velocity index for narrowly defined money did not differ markedly from a normal cyclical pattern up to the trough of the current cycle. Thereafter, however, it accelerated much more rapidly than it had on the average during the preceding four recoveries; in fact, it matched the earlier record upsurge of the 1949–50 cycle, when the post-World-War-II economy was still awash with liquidity. Moreover, although the Treasury bill rate initially turned up sharply from the cyclical trough as in other recent cycles, it then dropped back to a level roughly consistent with the more gradual advance that had occurred in the 1949–50 upswing. The middle panel of the chart makes the same kind of comparison for the income velocity of M_2 . It shows that although the contrast with the average of other recent cycles is not so marked, M_2 velocity has also been more rapid in the current cycle than is normal.

These comparisons strongly suggest that in 1975 the demand for M_1 —given levels of income and interest rates—failed to grow along the paths indicated by historical relationships. One reason for this change may be that when interest rates move abruptly to new historical highs, the public is jogged into new ways of economizing on non-interest-bearing forms of money. Once learned, these new habits are not quickly reversed even when interest rates recede again. Since interest rates jumped to new record levels in the summer of 1974, they may have exerted a ratchet effect of this type on

succeeding demands for narrowly defined money. At the same time a number of recent innovations in financial practice are becoming more widely adopted and are probably contributing to the increased

Income velocity of money, and Treasury bill rate

6 postwar recoveries Trough quarter=100



Data are at seasonally adjusted annual rates of growth. U.S. Treasury bill rate, market yields on 3-month issues. *Note* differences in scales.

efficiency in money use—although few data are available to document the quantitative significance of these changes.

Several such innovations were initiated late in 1974 and in 1975. Near the end of 1974 governmental units were permitted for the first time to hold savings deposits at commercial banks. And on governmental holdings of time deposits with denominations of less than \$100,000, banks were authorized to pay interest rates as high as the maximum rate permitted on similar accounts at other types of Federally insured depository institutions. In April the Federal Reserve allowed member banks to begin offering the service of transferring funds from savings accounts to demand deposits by telephone. In September banks (like other thrift institutions before them) were allowed to offer non-negotiable transfers to a third party directly from savings accounts. Finally, in November banks were authorized to allow businesses to hold savings deposits of as much as \$150,000 per firm (per bank).

Quantitatively the November 1975 action may have been the most important of these changes; by early 1976 the volume of business savings accounts had grown to an estimated \$3 billion—although, of course, not all of this increase was at the expense of demand deposits. In Massachusetts and New Hampshire the congressionally mandated NOW account experiment that was started in 1974 had accumulated accounts totaling \$750 million by the end of 1975. This experiment permits commercial banks, mutual savings banks, and savings and loan associations to offer savings accounts subject to withdrawal by negotiable order. In January 1976 financial institutions in the four other New England States were also authorized to offer NOW accounts; thus, the use of savings accounts for transactions purposes can be expected to spread.

From the fragmentary data available it is not possible to say to what extent innovations in deposit instruments are creating permanent reductions in the demand for money as narrowly defined. While the innovations introduced in 1975 probably account for only a portion of the recent shortfall in money growth, the direction of their influence is clear, and the public's efforts to improve interest returns on money and liquidity balances may well continue.

Given this obvious potential for continuing changes in the public's demand for M_1 , and the evident recent variability in these demands, it is clear that the System cannot rely on the narrowly defined money

stock—or any other single variable—as an intermediate objective of monetary policy. The behavior of given financial aggregates must always be interpreted in relation not only to the performance of other money and credit aggregates and credit market conditions, but also to the performance of the real economy.

Bank reserves

The total supply of reserves available to banks contracted during most of 1975, but then expanded during the final quarter. Even in the quarters when total reserves were contracting, total bank deposits were able to grow because the structure of accounts shifted to forms that require fewer reserves.

In particular, the average maturity of time deposits lengthened appreciably. Since reserve requirements are lower on longer-maturity time accounts than on short-, this lengthening of maturities released more than \$1.7 billion of reserves during the year. Another \$300 million of reserves were released by reduction in requirements on non-deposit sources of funds. In the final quarter of the year, however, reserves released through the lengthening of time deposit maturities were no longer sufficient to support the general deposit expansion, so the System used open market operations to increase the seasonally adjusted total reserve base.

AGGREGATE FLOWS OF FUNDS

Aggregate flows of funds in 1975 were strongly influenced by the deepening recession early in the year and the moderate economic recovery thereafter. The dominant borrower was the Federal Government whose requirements expanded by \$73 billion to a record \$85 billion—as Table 7 shows. This huge Federal need developed largely because the recession limited Treasury tax receipts and generated higher compensatory Federal spending. However, discretionary policies initiated to stimulate economic recovery through reductions in tax rates also contributed to the size of the deficit.

Despite the record upsurge in Federal uses, total funds raised in credit and equity markets during 1975 experienced a year-to-year drop of \$9.6 billion, with funds raised outside the Federal sector

7. Funds raised in credit and equity markets

In billions of dollars

Sector, or type of instrument	1974	1975	1975 ¹			
			Q1	Q2	Q3	Q4
Total funds raised	218.1	208.5	174.8	200.8	216.8	241.7
By sector:						
<i>Nonfinancial sectors</i>	<i>180.1</i>	<i>197.3</i>	<i>164.3</i>	<i>200.8</i>	<i>198.9</i>	<i>225.0</i>
U.S. Government ²	12.0	85.2	71.9	95.9	94.1	78.9
<i>Other</i>	<i>168.1</i>	<i>111.9</i>	<i>92.3</i>	<i>104.9</i>	<i>104.9</i>	<i>146.2</i>
Nonfinancial business.....	92.1	43.4	36.6	37.2	38.1	62.0
State and local government.....	16.6	13.2	12.6	17.0	12.8	10.6
Households.....	44.0	43.3	35.5	39.3	41.7	56.8
Foreign.....	15.4	12.0	7.6	11.4	12.3	16.8
<i>Financial sectors</i>	<i>38.0</i>	<i>11.3</i>	<i>10.6</i>	<i>-.1</i>	<i>17.9</i>	<i>16.7</i>
Sponsored credit agencies.....	22.1	10.3	10.5	7.6	7.9	15.2
Private financial sectors.....	15.9	1.0	.1	-7.7	10.0	1.5
By type of instrument:						
<i>U.S. Government securities</i>	<i>33.5</i>	<i>95.4</i>	<i>81.4</i>	<i>102.2</i>	<i>101.8</i>	<i>96.1</i>
Public debt and budget agency securities.....	12.0	85.2	71.9	95.9	94.1	78.9
Sponsored credit agency securities.....	21.4	10.1	9.4	6.5	7.3	17.1
Corporate and foreign bonds.....	23.3	34.5	49.4	36.1	19.5	32.9
Corporate equities.....	4.6	10.0	6.9	12.8	8.2	12.0
State and local government debt ³	17.4	15.4	14.0	20.1	14.5	12.8
<i>Mortgages</i>	<i>54.5</i>	<i>54.6</i>	<i>45.4</i>	<i>56.0</i>	<i>54.7</i>	<i>62.4</i>
Residential.....	37.9	41.5	33.0	41.2	42.5	49.2
Other.....	16.6	13.1	12.4	14.8	12.2	13.2
Bank loans n.e.c.....	39.5	-12.9	-38.1	-13.9	-6.3	6.7
Open market paper plus Rp's.....	13.6	1.3	14.6	-10.8	1.8	-3
Consumer credit.....	9.6	5.3	-2.5	-.6	11.6	12.7
Loans from home loan banks.....	6.7	-3.9	-10.5	-5.7	-.2	.7
Other ⁴	15.4	8.8	14.2	4.6	11.2	5.7

¹ Quarterly data are seasonally adjusted annual rates.

² Public debt securities and budget agency securities.

³ Includes both short- and long-term borrowing.

⁴ Includes mutual fund shares.

NOTE.—Data are from Federal Reserve flow of funds accounts. Rp's = repurchase agreements.

down nearly \$83 billion. Most of this contraction occurred among nonfinancial businesses, where net demands on credit and equity markets dropped to less than half the 1974 total. Federally sponsored credit agencies also borrowed less as funds again flowed more freely to residential mortgage markets through private channels. And financial institutions in general—with their normal sources of funds regenerated—reduced their reliance on security market financing.

The 1975 shrinkage in credit and equity market demands of businesses reflected a dramatic year-to-year turnaround in corporate cash flow. Businesses usually experience some regeneration of cash flow during periods of economic recession and recovery as they reduce inventories and try to cut costs to improve profitability. In 1975, however, the dimensions of the cash resurgence were much larger than usual because efforts to hedge against inflation had so exaggerated the earlier inventory build-up. In addition, corporate profitability improved markedly after midyear—more so than in most of the earlier postwar recoveries.

On the supply side of financial flows, the largest dollar increase in funds provided to credit and equity markets was at nonbank thrift institutions, where the volume of funds available was more than twice that in 1974—as shown in Table 8. Since rates paid on most thrift accounts remained at their ceilings, the across-the-board de-

8. Funds supplied in credit and equity markets

In billions of dollars

Sector supplying	1974	1975	1975 ¹			
			Q1	Q2	Q3	Q4
All sectors	218.1	208.5	174.8	200.8	216.8	241.7
All sectors to nonfinancial sectors	180.1	197.3	164.3	200.8	198.9	225.0
U.S. Govt. and sponsored credit agencies	31.5	22.1	29.3	14.8	17.9	26.5
F.R. System	6.2	8.5	9.0	5.0	19.8	4.4
Foreign sources	12.1	8.0	22.0	7.1	-3.3	6.4
<i>Private financial intermediaries</i>	<i>137.5</i>	<i>130.1</i>	<i>90.6</i>	<i>160.9</i>	<i>127.7</i>	<i>141.2</i>
Commercial banks	64.6	26.6	-15.9	49.5	37.5	35.2
Thrift institutions	27.0	56.3	52.8	65.5	57.4	49.4
Insurance and pension funds	41.0	48.7	43.9	54.2	46.6	50.3
Other	4.9	-1.5	9.8	-8.3	-13.8	6.3
MEMO: Funds raised by private financial intermediaries	15.9	1.0	.1	-7.7	9.9	1.5
<i>Private domestic nonfinancial investors</i>	<i>30.8</i>	<i>39.8</i>	<i>24.0</i>	<i>13.0</i>	<i>54.7</i>	<i>67.4</i>
Households	22.1	11.8	-.5	-13.6	33.6	27.6
Nonfinancial business	8.4	22.3	15.5	31.3	11.9	30.4
State and local governments . . . . .	.3	5.7	9.0	-4.7	9.2	9.4
MEMO: Net change in deposits and currency held by private domestic nonfinancial sectors	82.8	100.3	75.3	150.2	78.6	97.0

¹ Quarterly data are seasonally adjusted annual rates.

NOTE.—Data from Federal Reserve flow of funds accounts.

cline in yields on competing market securities added significantly to the investment appeal of thrift instruments. Nonfinancial corporations and State and local governments also supplied more funds in 1975 than in 1974 in the process of rebuilding liquid assets.

Households supplied substantially fewer funds directly to credit and equity markets—as is usually the case when cyclical declines in market interest rates shift household investment preferences toward thrift accounts. At commercial banks, however, the large year-to-year reduction in total funds being supplied was sharply at odds with past cyclical experience. This tendency for bank assets to shrink, rather than expand as in past cycles, was due largely to the unusual dimensions of business loan repayments and the associated decision of bankers to permit heavy net redemptions of their large CD's. In addition, the increased emphasis by banks on conservative asset management, in the face of large potential loan losses, appears to have been an important factor.

Federal sector

The huge dimensions of the Federal deficit financing task for 1975 first came into sharp focus during the latter part of the first quarter when the Congress was completing action on the Tax Reduction Act. The magnitude of this prospective Federal need contributed to the general backing up of longer-term interest rates in late winter. But the major pressure from Treasury financing did not develop until the third quarter. During the second quarter, in fact, long-term rates receded somewhat from their late-winter highs.

It was not apparent much before midyear that economic activity was turning up, and with monetary policy accommodative, short-term interest rates in the second quarter continued to trend downward. Moreover, while the burden of Treasury financing when measured on a seasonally adjusted basis did bulk largest during the second quarter—when Federal tax rebates and special social security payments were being disbursed—it was appreciably smaller than in the other quarters before seasonal adjustment. In addition, a sizable share of the second-quarter Federal outlays were simply channeled into deposits at intermediaries and then partly reinvested in the expanding Treasury debt.

In the third quarter the large Treasury financing need had to be accommodated in a rather different financial climate. Incoming data showed a marked upsurge in the real economy, and interest rates generally came under upward pressure. In this period many financial market participants began to wonder whether the feared possibility that heavy Federal financing would “crowd out” other borrowers might not actually materialize. In particular, with increased rates on competing market securities threatening to erode the investment appeal of thrift accounts, managements at financial intermediaries became hesitant about entering into new mortgage commitments. In the process, the pressures caused by rising security market rates spread rather quickly to mortgage loan rates.

Investors remained cautious about the interest rate implications of Federal deficit financing into the early fall, when the Treasury offered several debt issues—in both the bill and note sectors. As a result of this bunching of new issues, financial markets continued under some tension. The general easing of money market rates in October, however, quickly relieved this strain, and thereafter Treasury yields trended generally downward.

Business sector

The most significant changes in business financing during 1975 were the substantially reduced over-all volume of funds raised in credit and equity markets and the marked shift of emphasis from short- to long-term financing. Total funds raised dropped by about \$49 billion relative to 1974, but the volume of stock and bond financing was nearly \$13 billion larger than in 1974. Thus, the over-all level of stocks and corporate bonds outstanding expanded a record \$37 billion in 1975 while outstanding business loans at banks contracted about \$13 billion. The latter reduction contrasted sharply with 1974 when loans to business had expanded nearly \$30 billion.

The shrinkage of business loans at banks was largest during the first half of the year when nonfinancial corporations were cutting their inventories sharply. In that period, while inventories were contracting at about a \$23 billion annual rate, loans at banks declined at roughly the same rate. At the same time rapid expansion in outstanding corporate bonds and stocks—at a \$46 billion annual rate—was providing an alternative source of funds.

Later in the year, when inventory liquidation tapered off, the contraction in business loans at banks also slowed; nevertheless outstanding loans still experienced some further attrition in the fourth quarter. A major factor helping to minimize business needs for bank financing as the economy recovered was the sharp step-up in corporate profits beginning in the second quarter. While business reliance on capital market financing also moderated somewhat as the year progressed, the slowing of the decline in bank loans was a more significant factor in their total financing arrangements. Consequently, business reliance on short- and long-term instruments taken together began to pick up after the first quarter—and was largest in the final quarter.

Because of the increased general emphasis on credit quality, direct access to public securities markets was limited during much of the year for corporations with less than the highest credit ratings. This greater stress on quality was evident in the sharp widening of spreads that developed between secondary market yields on corporate bonds in different rating categories. By early 1976, however, after the general course of interest rates had turned down again, businesses with less than the highest ratings had regained access to the public market.

State and local governments

Borrowing by State and local governments remained quite heavy in 1975 as a sharp deterioration in financial positions forced some units to raise money in circumstances they would rather have avoided. On the one hand, the recession exerted a squeeze on State and local tax receipts while adding to welfare expenditures. On the other hand, the inflation raised operating outlays—particularly for fuel, but also for salaries and wages as municipal employees in key areas bargained aggressively for expensive labor settlements and resisted labor force reductions.

In the face of these unusual pressures State and local government borrowing in 1975 was only moderately below the near-record volume of 1974. However, the 1975 total overstates the willingness of municipal investors to absorb new debt, since most of the \$3.8 billion of gross debt issued by New York City to meet its second-half deficit and refunding requirements had to be distributed outside regular market channels.

The heightened quality-consciousness of investors in municipal securities surfaced early in the year when the New York Urban Development Corporation was forced to default on a short-term note issue and bank loan. Attention then focused on other major borrowing units that were reported to be experiencing financial difficulties—forcing yields on their securities to unusually wide spreads over the rest of the market.

As the year progressed, normal market channels for distributing debt instruments of New York City dried up. When the efforts of New York State to fill this gap through the establishment of a Municipal Assistance Corporation also proved insufficient, the State itself borrowed to lend to the City. By late fall the odds that the City would default and possibly trigger a larger default by the State, and by its agencies as well, seemed very high.

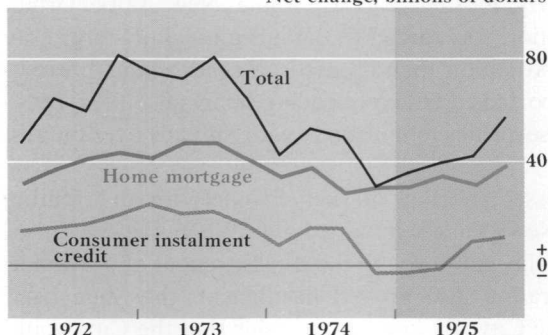
Market tensions created by this possibility were finally relieved when the Federal Government elected to assist the City directly on a temporary basis in conjunction with a 3-year plan to restructure the City's debt and balance its budget. Passage of a tax package to ease the State's own budget problems also served to reassure market participants. Yields on municipal securities then receded substantially from their late fall highs, even though the over-all volume of new State and local government debt offerings remained large.

Household sector

Funds raised by households in credit markets totaled about the same in 1975 as in 1974, but the quarter-to-quarter growth trend in the 2 years was different—up in 1975, and down in 1974—as the chart shows. Mortgage borrowing by households reached its recession low in late 1974 and then rose gradually throughout 1975. Consumer instalment credit also followed a pattern of cyclical decline and recovery, but the pattern differed from mortgage credit in timing and extent of change—showing some net contraction in late 1974 and early 1975, substantially wider fluctuations, and a later upturn. While interest rates on home mortgages declined more than 100 basis points during 1975—from their record 1974 levels of 10 per cent or more—the typically more rigid rates for consumer instalment loans eased only slightly.

Funds raised by households in credit markets

Net change, billions of dollars



Flow of funds data. Total includes some items not shown separately.

The upswing in home mortgage borrowing was attributable to sharp increases in sales of existing houses and to expanded financing of new home sales. Borrowing was concentrated more heavily than usual at savings and loan associations, which accounted for more than three-fifths of the net expansion in home mortgage debt during the year.

The first-half contraction of instalment debt, along with a gradual reduction in delinquency rates, placed consumers in a better position to expand spending and borrowing for consumer durable goods. At midyear, following the upturn in real disposable income, credit-financed spending was accelerating again, and by the fourth quarter consumer instalment debt was growing at a 7 per cent annual rate. However, this was still only about half the peak rate reached in the first half of 1973. The sharpest reductions in consumer instalment borrowing occurred early in 1975, chiefly at commercial banks, but consumers continued to borrow from credit unions throughout the year at close to the prerecession volume. Growth in share accounts at credit unions averaged 20 per cent for the year.

Depository institutions

In contrast to the highly unusual efforts of commercial bankers to shrink their total footings, management strategies followed at non-bank thrift institutions in 1975 were more typical of those normally

pursued in recession and recovery periods. The combination of special cash disbursements by the Federal Government and of reduced yields on market securities generated heavy net inflows of funds to the nonbank institutions—particularly during the late spring when the Federal payments were concentrated. Although the temporary rise in market rates during the summer and the sharp pick-up of retail sales at year-end produced some slowing of growth in thrift accounts relative to the record second-quarter pace, inflows remained quite strong throughout the year, and again in early 1976, when they surged to new records.

During the initial months of 1975 nonbank thrift institutions placed major emphasis on improving their liquidity positions—repaying high-cost borrowing and enlarging liquid asset holdings. Additions to liquidity were encouraged by actions of the Federal Home Loan Bank Board that raised the share of assets that savings and loan associations were required to hold in liquid form. The liquidity preferences of thrift institutions were also reinforced by the backing up in market rates on longer-term securities late in the first quarter and again in the summer. These episodes tended to maintain management sensitivity to the risks of possible renewal of disintermediation; they also encouraged management to hold deposit rates at the allowable maximums, although advertising of the highest rates was not uniformly aggressive in all parts of the year.

As their rates of deposit growth increased, nonbank thrift institutions stepped up their mortgage lending. In fact, most of the year's financing of residential housing by private lenders was provided by nonbank thrift institutions. At savings and loan associations, which account for the bulk of mortgage credit advanced by thrift institutions, outstanding loan commitments on housing rose to more than \$18 billion in the fourth quarter—the largest volume since the summer of 1973 when they were only moderately below the record established early that year.

At commercial banks the increased emphasis on conservative management policies was reflected in both the general shrinkage of total assets and a shift to assets of higher quality and greater liquidity. Thus, while bank holdings of U.S. Treasury securities grew \$30 billion in 1975—after showing only minimal growth in 1974—holdings of all other key types of assets grew substantially less. Additions to holdings of non-Treasury securities were \$3 billion less than in 1974;

expansion in mortgages was nearly \$10 billion smaller; and loans other than mortgages actually contracted by \$9 billion over the year—after growing \$42 billion in 1974.

The general reduction in risky assets was matched on the liability side of bank balance sheets by cutbacks in usage of the more costly sources of funds. In particular, the outstanding volume of large-denomination bank CD's dropped \$17 billion.

Conservative policies were also reflected in bank attitudes toward lending rates. Although the rate on prime business loans declined nearly 4 percentage points to 6¾ per cent from the end of 1974 through early 1976, the prevailing bank prime rate remained on the high side throughout 1975, relative to rates being paid by prime business borrowers in the commercial paper market. Bankers apparently concluded that with business short-term borrowing demands on the low side, even a sharp reduction in the prime rate would fail to elicit significant additional demands for loans, whereas the potential loss of bank revenue from such a change might prove counterproductive in a year when earnings were being significantly affected by the need to establish reserves for larger potential loan losses.

International Developments

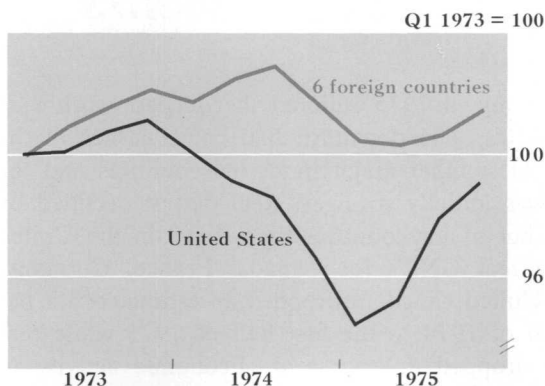
The international economy in 1975 suffered the deepest worldwide recession since the 1930's. The downturn had come earlier in the United States than in most other major industrial countries and the subsequent recovery was initially stronger. Real output declined by less, on average, in other major countries than it did in the United States. The combined real GNP's for Canada, France, Germany, Italy, Japan, and the United Kingdom dropped an estimated 3.8 per cent from the first half of 1974 to the first half of 1975 while real GNP in this country dropped 4.9 per cent. Economic activity in some of the smaller European countries—for example the Scandinavian countries—held up better than in the larger countries in 1975.

Differences in the timing of the recession and the recovery in the United States relative to the rest of the world contributed to changes in the relative tightness of various national money markets over the year. From mid-1974 to early 1975 money market conditions in the United States eased, on average, relative to markets in other countries as U.S. output dropped sharply. Declines in interest rates were widespread among industrial countries during this period, but the declines in U.S. rates were among the largest.

From February through September U.S. interest rates rose fairly steadily relative to those in other countries, first as continuing recessions abroad brought foreign interest rates down somewhat and later as U.S. rates firmed with the rise in domestic economic activity. U.S. rates sagged after September, but relative to rates in other countries they were well above levels at the beginning of the year.

These cyclical developments affected U.S. international trade and financial transactions in 1975 in a number of ways: (1) An estimated surplus of \$13 billion on current-account transactions was registered, a sharp turnaround from the \$0.2 billion deficit in 1974; (2) the trade-weighted average value of the dollar fell off sharply in January and February, moved little for several months, and then appreciated by more than 10 per cent from July to September; and (3) U.S. banks slowed markedly the extraordinary rate at which they had expanded their foreign activities in 1974.

Real GNP U.S. and 6 foreign countries



Weighted-average index of seasonally adjusted quarterly real GNP from the Organization for Economic Cooperation and Development. Foreign countries are Canada, France, Germany, Italy, Japan, and the United Kingdom. Weights are proportional to 1974 GNP measured in dollars.

The oil-exporting countries greatly increased their imports in 1975 while their receipts probably declined somewhat, resulting in a decrease in their investible surplus from roughly \$60 billion in 1974 to \$35 billion—\$40 billion. Though the management of these funds has become routine for financial institutions, the continuing drain of aggregate demand from oil-importing countries that the accumulation of such funds reflects has been a major factor depressing world economic activity.

The non-oil-exporting developing countries experienced lower export prices and volumes in 1975 than in the previous year. Despite these developments and their continued large payments for oil, these countries as a group maintained their imports from industrial countries at or above the 1974 level. In order to maintain the level of their imports, these countries obtained an unprecedented amount of credit in private capital markets and from official sources. They also reduced their reserves by almost 10 per cent.

CURRENT-ACCOUNT TRANSACTIONS

The swing to a large surplus in the current account in the first half of 1975 was accounted for by a decline in merchandise imports, which were sharply reduced by the recession here. Import volume

fell 10 per cent in the first quarter from the previous quarter and another 12 per cent in the second. There were reductions in all major categories. The sharpness of the declines reflected the impact of the liquidation of inventories in the first half of the year as well as declining production.

The import price level rose 2 per cent from the fourth quarter of 1974 to the second quarter of 1975. Inflation abroad continued to provide an upward thrust to import prices, while a depreciating

9. U.S. international transactions

In billions of dollars

Item	1974	1975 ^a	1975 (seasonally adjusted)			
			Q1	Q2	Q3	Q4 ^b
Merchandise trade balance	-5.3	9.0	1.5	3.3	2.1	2.2
Exports.....	98.3	107.2	27.1	25.8	26.6	27.7
Imports.....	103.6	98.1	25.6	22.6	24.5	25.5
Service transactions, net	9.1	7.5	1.4	1.7	2.4	2.1
Investment income, net.....	10.1	6.0	1.2	1.4	1.8	1.7
Military transactions, net.....	-2.2	-8	-4	-4	-1	⁶
Other services, net.....	1.1	2.2	.5	.7	.6	.4
Transfer payments ^{1,2}	-4.0	-3.9	-1.0	-1.1	-9	-1.0
Balance on current account ²	-.2	12.6	1.9	3.9	3.5	3.3
Bank-reported nonofficial capital flows, net	-2.7	-9.9	-5.6	-4.0	3.2	-3.5
Changes in foreign assets of U.S. banks (increase, -).....	-19.5	-13.1	-3.7	-3.8	-.8	-4.8
Changes in foreign liabilities of U.S. banks (increase, or decrease (-)) ³	16.8	3.2	-1.9	-.2	4.0	1.3
Other capital flows, net	-1.8	-7.3	1.2	-.4	-7.7	-.4
U.S. Govt. capital, net ²	-2.0	-2.4	-.7	-.5	-.6	-.7
Direct investments, net ⁴	-5.2	-3.8	-.7	-1.6	-.7	-.7
U.S. purchases of new foreign bond issues (increase, -).....	-2.4	-7.2	-2.1	-1.2	-1.3	-2.6
Foreign purchases of U.S. corporate stocks (increase, or decrease (-)) ⁴.....	.5	4.5	1.0	.9	1.3	1.3
Changes in U.S. liabilities to OPEC official agencies (increase, or decrease (-)) ⁵	10.0	4.1	.3	1.0	1.7	1.2
Changes in U.S. liabilities to other foreign official agencies (increase, or decrease (-)).....	-.2	-1.1	3.2	.8	-6.3	1.3
Other nonofficial capital flows, net.....	-1.1	-.8	.6	.3	-1.4	-.3
Changes in U.S. reserve assets (in- crease, -).....	-1.4	-.6	-.3	(⁶)	-.3	.1
Statistical discrepancy.....	4.7	4.6	2.5	.4	.9	.7

¹ Includes U.S. Govt. grants and pensions, and private remittances.

² Excludes special offsetting transactions with India, Israel, and Vietnam.

³ Excludes liabilities to foreign official agencies.

⁴ Includes some foreign official transactions.

⁵ Not seasonally adjusted.

⁶ Less than \$50 million.

NOTE.—Details may not add to totals because of rounding. Data from U.S. Depts. of Commerce and Treasury.

dollar in late 1974 and early 1975 tended to raise prices of some imports in dollar terms. At the same time, worldwide weakness in demand softened the prices of many goods moving in international trade. Prices of imports of primary commodities declined in 1975, reflecting sharp reductions in the prices of these commodities on world markets from peak 1974 levels.

The fast rate of growth of U.S. output in the third quarter generated a 22 per cent rebound in the value of imports in the same quarter, reinforcing the view that the second-quarter decline in imports had been associated with the domestic inventory adjustment. Volume increased even more than value as prices of imports fell. Some of the rise in volume was in imports of fuels, partly in anticipation of a price increase by the Organization of Petroleum Exporting Countries (OPEC) on October 1, but imports of automobiles, consumer goods, foods, feeds, and beverages also increased. Imports continued to grow in the fourth quarter, rising 4.5 per cent in volume.

Import prices fell 2.5 per cent from the second to the fourth quarter, in part because appreciation of the dollar in the third quarter reduced the dollar prices of some imports and in part because weak worldwide demand brought price reductions on some goods. In contrast to U.S. import prices, broad measures of prices continued to rise around the world, with the weighted average of GNP deflators in the six major trading partners of the United States rising about 4 per cent from the first half to the second half.

The volume of U.S. nonagricultural exports fell by 6.5 per cent from the fourth quarter of 1974 through the second quarter of 1975, but this decline was roughly offset by an increase in unit values. Agricultural exports, which had remained at a high level following a sharp increase in 1973, were large for the first half of 1975 as a whole, but they were declining over this period. Recessions in foreign industrial countries that were milder and somewhat later than the U.S. recession, along with increased demand for U.S. goods on the part of oil-exporting countries, helped to account for the strength of exports as compared with imports in the first half of 1975. In addition, non-oil-producing developing countries continued to be relatively strong markets for U.S. goods in spite of their higher oil bills and declining export earnings.

Total U.S. exports grew by 8.5 per cent from the second to the fourth quarter of 1975. Agricultural export volume turned up, and a

10. U.S. merchandise trade, balance of payments basis

In billions of dollars

Item	1974	1975	Seasonally adjusted annual rates				
			1974	1975			
			Q4	Q1	Q2	Q3	Q4
<i>Exports</i>	98.3	107.2	106.4	108.2	103.4	106.4	110.8
Agricultural.....	22.4	22.3	22.5	24.3	19.6	22.3	23.0
Nonagricultural.....	75.9	84.9	84.0	83.9	83.8	84.1	87.7
<i>Imports</i>	103.6	98.1	111.9	102.2	90.3	97.9	102.1
Fuels.....	27.4	28.3	29.5	27.6	26.4	30.0	29.4
Nonfuels.....	76.2	69.8	82.4	74.7	63.8	68.0	72.7
Trade balance	-5.3	9.0	-5.5	6.0	13.1	8.4	8.7

NOTE.—Details may not add to totals because of rounding. Data from U.S. Dept. of Commerce, *Survey of Current Business*, December 1975.

decline in prices was slowed as a result of large sales of grain to the Soviet Union. Nonagricultural exports also showed a strong upturn; from the second to the fourth quarter, they rose 6.1 per cent, about two-thirds of which represented an increase in volume.

While the trade balance strengthened markedly in 1975, there was some reduction in the net balance on services (including income receipts and payments) and military transactions. The largest change was a reduction in net income receipts from the record level of 1974, when oil industry profits were extraordinary. This reduction was offset in part by rising receipts from military sales abroad and by a small reduction in foreign military expenditures.

INTERNATIONAL CAPITAL MARKETS AND EXCHANGE RATES

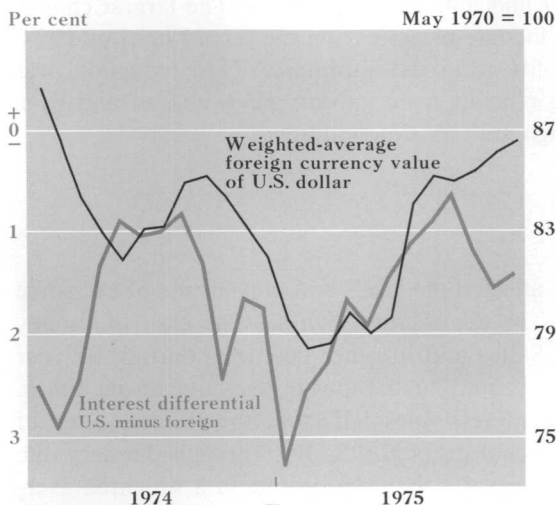
Although many factors affected the levels and movements of exchange rates in 1975, changes in the relative tightness or ease of money markets in the United States and in other countries during the year were the dominant force behind fluctuations in the value of the dollar. Both U.S. and foreign interest rates fell from the third quarter of 1974 through the first quarter of 1975, but through January the decline in U.S. rates was greater than the decline in a weighted average of foreign interest rates. The weighted-average value of the dollar declined over the same period, reaching depressed levels in

early 1975 at a time when the U.S. current-account surplus was growing rapidly. The dollar continued to decline in exchange markets through the first week in March.

Intervention to moderate the decline in the dollar was substantial in January and February as the Federal Reserve sold about \$800 million in foreign currencies obtained under swap arrangements with foreign central banks. Substantial intervention also was undertaken by foreign central banks for their own accounts during the first quarter. Although net changes in official liabilities are an imperfect and incomplete reflection of efforts by authorities to affect exchange rates through intervention, the \$3.2 billion increase in U.S. liabilities to foreign official agencies (other than OPEC) in the first quarter of 1975 indicates roughly the extent of official support for the dollar.

The swing toward an outflow of mobile, bank-reported capital in the first quarter of 1975, in response to the relatively lower U.S. interest rates, was accommodated in part by the rising current-account surplus. However, the potential capital outflow—given the change in

International value of the dollar and interest rate differential



Last day of month. Foreign interest rates and exchange rates are weighted by shares of foreign trade (exports and imports) with the rest of the Group of Ten plus the United States in 1972.

interest rates—was even greater, and the additional pressure was responsible for the depreciation of the dollar. Official intervention reduced the potential depreciation of the dollar, which would at some point have halted the outflow of private capital, and a record net outflow of \$5.6 billion occurred in bank-reported capital.

The dollar appreciated slightly during the second quarter as U.S. interest rates rose somewhat relative to rates abroad and the current-account surplus reached a peak. A large increase in the foreign claims of U.S. commercial banks resulted in a net outflow of bank-reported capital nearly as large as that in the first quarter. During this period the Federal Reserve System sold dollars for foreign currencies and used the proceeds to reduce its outstanding drawings under swap arrangements by about \$600 million; however, the combined intervention of all central banks resulted in a small net purchase of dollars from the market.

With the economic upturn in the United States and the rise in interest rates that accompanied it, the dollar began to strengthen in exchange markets. Beginning in late June, what had been a weak upward drift became a strong rally against all major currencies except the Canadian dollar. After reaching a peak in September, the weighted-average value of the dollar receded only slightly and then fluctuated in a narrow range about 9 per cent above its first-quarter level for the rest of the year. Developments such as New York City's financial crisis and occasional shifts in financial markets toward tightness or ease affected exchange markets for brief periods, but none of these factors had a lasting impact.

The dollar's recovery provided an opportunity for purchases of foreign currencies by the Federal Reserve System sufficient to repay completely, by the end of July, the swap drawings made earlier in the year. At the same time, foreign central banks made large sales of dollars to moderate the depreciations of their currencies relative to the dollar. The swing in U.S. liabilities to foreign official agencies (excluding OPEC), from increases in the first two quarters to a decline of \$6.3 billion in the third quarter, is indicative of the major change in the thrust of central bank activity in exchange markets. In the fourth quarter the volume of System intervention and net foreign central bank intervention in dollars declined while the value of the dollar remained stable.

The exchange-market intervention that occurred in the third

quarter moderated the upward pressure on the value of the dollar by satisfying part of the increased demand for U.S. dollar assets that resulted from the shift toward relatively higher interest rates in the United States. This demand was again reflected largely in bank-reported capital flows, which swung from a net outflow of \$4.0 billion in the second quarter to a net inflow of \$3.2 billion in the third. U.S. interest rates then fell off relative to foreign rates in the fourth quarter, inducing a shift toward an inflow of mobile funds. The upward pressure on the dollar was relieved. There was only small net intervention, but with a continuing current-account surplus bank-reported capital flows swung back to a net outflow of \$3.5 billion.

While net bank-reported capital flows showed considerable volatility in 1975, the year-to-year growth in the foreign activities of head offices of U.S. banks, as measured by the growth of gross foreign assets and liabilities, slowed markedly from the 1974 pace. Banks' foreign assets increased by \$13 billion in 1975 after an increase of \$20 billion (73 per cent) in 1974, while liabilities to private foreigners rose by only \$3 billion after growing by \$17 billion in 1974. The spurt in foreign lending that had occurred in 1974 reflected the termination of U.S. capital controls in January of that year, and some slowing of growth in gross capital flows through U.S. banks was to be expected after an initial adjustment of bank portfolios to the new environment.

In addition, the slow pace of economic activity around the world, banks' concern over the adequacy of their capital, and more cautious attitudes towards foreign lending were important factors that inhibited the expansion of U.S. banks' foreign activities in 1975. The activities of U.S. banks conducted at their foreign branches were subject to the same inhibiting factors; therefore, branch lending also grew less vigorously in 1975. Claims of foreign branches on foreign residents (excluding claims on other branches of the same bank) grew by only two-thirds as much as in 1974.

While the international activities of U.S. banks expanded less rapidly than in 1974, there was a substantial increase in U.S. securities transactions with foreigners. Net U.S. purchases of new issues of foreign bonds were \$7.2 billion, an increase of \$4.8 billion over 1974. Canadian issues of \$3.2 billion and issues of international and regional development lending institutions of over \$2.4 billion accounted for the bulk of the new issues in the U.S. market, but the

volume of other new issues more than doubled to \$1.6 billion. At the same time, renewed foreign interest in the U.S. stock market led to net foreign purchases of \$4.5 billion in stocks, after net purchases of \$0.5 billion in 1974, offsetting much of the effect of the increase in new foreign bond issues on net capital flows.

U.S. liabilities to official agencies of OPEC members are for investment, and they serve functions different from the foreign exchange reserves of other countries. For this reason, they have been kept separate in this discussion from U.S. liabilities to the official agencies of other countries. These liabilities increased by \$4.1 billion in 1975 after a \$10.0 billion increase in 1974. In addition, direct purchases of U.S. common stocks by OPEC members were \$1.5 billion in 1975 compared with \$0.2 billion in 1974. The share of the total investible surplus of OPEC members coming directly to the United States appears to have declined somewhat in 1975.

LOOKING AHEAD

In the months ahead the pick-up in economic activity in most other industrial countries is expected to continue, but with less vigor than in the U.S. economy. Consequently, U.S. imports are likely to increase relative to exports—resulting in a decline in the U.S. current account in 1976 from the record surplus in 1975. This adjustment, together with some reduction in the more extreme surplus and deficit positions of other industrial countries, should serve to reduce strains in foreign exchange and capital markets. Problem areas for 1976 include (1) the continuing large deficits of the non-oil-producing developing countries (though these countries will benefit from the recovery in industrial markets), (2) possible stresses on financial institutions as international debts mount, and (3) the difficulty of carrying out national economic policies in such a way as to support recoveries that are just beginning while avoiding a resurgence of price inflation.

INTERNATIONAL MONETARY NEGOTIATIONS

In 1975 and early 1976, international monetary negotiations yielded substantial agreements with respect to four aspects of the international monetary system: increases in International Monetary Fund quotas, the role of gold, exchange-rate arrangements, and access to the resources of the IMF.

In January 1975 the IMF's Interim Committee agreed on a 33.6 per cent increase in members' total quotas in the Fund and on some changes in the relative sizes of member countries' quotas. Total IMF quotas, which determine members' obligations to lend their currencies to other countries through the Fund and their borrowing rights from the Fund, are to be increased to SDR 39 billion—on December 31, 1975, one SDR was worth \$1.17. The U.S. quota will increase by 25 per cent to SDR 8,405 million. These new IMF quotas will not take effect until they have been ratified by national legislatures and approval has been given to an amendment of the IMF's Articles of Agreement.

In August the Interim Committee reached agreement on how the role of gold in the international monetary system should be gradually reduced. It was agreed that in the amended IMF Articles the official price for gold, SDR 35 per ounce, should be abolished. It was also agreed that one-sixth, or 25 million ounces, of the IMF's gold would be sold in the market over a 4-year period with the profits from the sale of this gold to be used for the benefit of the developing countries. At the same time the IMF will start to return another one-sixth of its gold to all members of the Fund in proportion to their quotas. Finally, it was agreed in August that under the amended IMF Articles countries would no longer have any obligation to use gold in transactions with the IMF and that an 85 per cent majority vote would be required for the IMF to accept gold or to dispose of the remaining two-thirds of its gold.

In support of these decisions, ministers of the Group of Ten major industrial countries agreed that, at least for a 2-year period, they would take no action to peg the price of gold, nor would they permit any increase in the combined stock of gold now held by them and by the IMF. Other members of the IMF have been invited to adhere to the Group of Ten agreement.

In November, at the time of the summit meeting at Rambouillet, the United States and France agreed on a resolution of their long-standing differences on exchange-rate arrangements. First, agreement was reached on the text of Article IV in the amended IMF Articles, which would (1) establish members' general obligations with respect to exchange-rate arrangements, (2) formally legalize the present, mixed exchange-rate system involving floating exchange rates, and (3) establish procedures whereby the members of the IMF, by an 85

per cent majority (which under the new quotas could be formed only with U.S. participation) could decide at a later date to adopt an exchange-rate system based on stable but adjustable par values. Second, it was agreed that consultative arrangements among governments and central banks regarding exchange-market developments and underlying economic conditions would be intensified.

In January 1976 the Interim Committee met in Kingston, Jamaica, to give final approval to the agreements that had been reached during 1975 insofar as they affected the IMF. At that time the Interim Committee also agreed that members' potential access to the IMF's resources under each of the four IMF credit tranches should be increased by 45 per cent until the quota increases become effective.

With the Interim Committee's meeting in January 1976, 4 years of intensive international monetary negotiations reached a conclusion. These discussions had started at the time of the Smithsonian Agreement in December 1971, and they continued under the auspices of the IMF's Committee of Twenty in 1972-74. They were carried out during a period of dramatic upheavals in the international economy and in international monetary arrangements. The result of the 4 years of negotiations is not a complete blueprint for a new international monetary system, such as had been expected when the Committee of Twenty started its work. However, when the proposed amendments to the IMF Articles of Agreement are formally approved by at least 77 countries holding at least 80 per cent of the total votes in the 128-member IMF, the Fund will become a stronger and more flexible institution, and its members should be in a better position to cope with future disturbances to the international monetary system.

LETTER ON RESTRICTIVE FOREIGN TRADE PRACTICES

The Board of Governors on December 16, 1975, urged member commercial banks to avoid involvement in restrictive foreign trade practices that discriminate against U.S. citizens or that accommodate boycotts against friendly foreign nations.

The Board's policy was spelled out in the following letter, which was sent to the 12 Federal Reserve Banks for transmittal to approximately 5,800 commercial banks that are members of the Federal Reserve System.

December 12, 1975

On November 20, 1975, the President announced a number of actions intended to provide a comprehensive response on the part of the Federal Government to any discrimination against American citizens or firms that might arise from foreign boycott practices. Two elements of the President's announcement relate to the possible involvement of commercial banks in such practices:

First, the President has directed the Secretary of Commerce to amend regulations under the Export Administration Act to prohibit U.S. exporters and "related service organizations" from answering or complying in any way with boycott requests that would cause discrimination against U.S. citizens or firms on the basis of race, color, religion, sex, or national origin. The term "related service organizations" is defined to include banks. Accordingly, banks that become involved in a boycott request related to an export transaction from the U.S. will be required to report any such involvement directly to the Department of Commerce.

Second, the President has encouraged the Board of Governors and the other Federal financial regulatory agencies to issue statements to financial institutions within their respective jurisdictions emphasizing that discriminatory banking practices or policies based upon race or religious belief of any customer, stockholder, employee, officer, or director are incompatible with the public service function of banking institutions in this country.

The Board of Governors strongly supports the President's statement in this regard. Banking is clearly a business affected with a public interest. Banking institutions operate under public franchises, they enjoy a measure of governmental protection from competition, and they are the recipients of important Government benefits. The participation of a U.S. bank, even passively, in efforts by foreign nationals to effect boycotts against other foreign countries friendly to the United States—particularly where such boycott efforts may cause discrimination against United States citizens or businesses—is, in the Board's view, a misuse of the privileges and benefits conferred upon banking institutions.

One specific abuse that has been called to the attention of the Board of Governors is the practice of certain U.S. banks of participating in the issuance of letters of credit containing provisions intended to further a boycott against a foreign country friendly to the United States. The prac-

tice appears to have arisen in commercial transactions between U.S. exporters and foreign importers, in which the importer has arranged for the issuance of a bank letter of credit as a means of making payment to the exporter for the goods he has shipped. In some cases the importer has required, as one of the conditions that must be satisfied before payment can be made by the U.S. bank to the exporter, that the exporter provide a certificate attesting that it is not connected in any way with a country or firm being boycotted by the importer's home country, or is otherwise in compliance with the terms of such a boycott. Such provisions go well beyond the normal commercial conditions of letters of credit, and cannot be justified as a means of protecting the exported goods from seizure by a belligerent country. Moreover, by creating a discriminatory impact upon U.S. citizens or firms who are not themselves the object of the boycott such provisions may be highly objectionable as a "secondary" boycott.

While such discriminatory conditions originate with and are imposed at the direction of the foreign importer who arranges for the letter of credit, U.S. banks that agree to honor such conditions may be viewed as giving effect to, and thereby becoming participants in, the boycott. The Board believes that even this limited participation by U.S. banks in a boycott contravenes the policy of the United States, as announced by the President and as set forth by the Congress in the following declaration in the Export Administration Act of 1969 (50 U.S.C. App. Section 2402(5)):

It is the policy of the United States (A) to oppose restrictive trade practices or boycotts fostered or imposed by foreign countries against other countries friendly to the United States, and (B) to encourage and request domestic concerns engaged in the export of articles, materials, supplies, or information, to refuse to take any action, including the furnishing of information or the signing of agreements, which has the effect of furthering or supporting the restrictive trade practices or boycotts fostered or imposed by any foreign country against another country friendly to the United States.

The Board also notes that the agreement by a U.S. bank to observe such discriminatory conditions in a letter of credit may constitute a direct violation of the Federal antitrust laws or if applicable State anti-boycott laws.

You are requested to inform member banks in your district of the Board's views on this matter, and, in particular, to encourage them to refuse participation in letters of credit that embody conditions the enforcement of which may give effect to a boycott against a friendly foreign nation or may cause discrimination against U.S. citizens or firms.

Very truly yours,

Theodore E. Allison
Secretary

Official Statements on Growth Targets for Monetary Aggregates

Given below are statements by Federal Reserve Chairman Arthur F. Burns on May 1, July 24, and November 4, 1975, in response to H. Con. Res. 133, passed March 24, 1975, concerning objectives and plans of the Federal Reserve with respect to the ranges of growth or diminution of monetary and credit aggregates in the upcoming 12 months. The text of the resolution is given beginning on page 113.

STATEMENT BEFORE THE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS, U.S. SENATE, MAY 1, 1975

I welcome the opportunity to discuss with this distinguished committee the condition of the national economy and the course of monetary policy.

As you well know, our Nation at present is experiencing a severe recession. During the past two quarters the real gross national product has declined by 5 per cent and the level of industrial production is now 12.5 per cent below last September. This is the steepest decline of economic activity in a long generation.

The recession has resulted in a large reduction of jobs and in substantial underemployment of our labor and capital resources. The unemployment rate has risen swiftly, the amount of overtime work has been cut drastically, and the number of employees placed on a part-time basis has also risen.

The recession has been accompanied by a notable degree of moderation in the rate of inflation. Nevertheless, despite the severity of the economic decline, the general price level has continued to advance quite rapidly. In other respects this recession resembles earlier declines of the past 30 years. Thus, consumer demand for autos, furniture, household appliances, and other durable goods has fallen. Orders or contracts by business firms for new facilities and equipment have like-

wise declined. And in this as in earlier recessions, a shift from inventory accumulation to inventory liquidation has been a major depressant of production and employment.

Last fall business firms were rather slow in reacting to the weakness that had been developing in consumer markets, in part because of their lingering concern about shortages of raw materials and other supplies. As a result, a build-up of inventories—much of it involuntary—occurred in the final quarter of 1974. In the opening months of this year, however, as sales to final users stabilized in real terms, liquidation of inventories got under way on a huge scale. Actually, all of the decline in the Nation's physical volume of production between the fourth quarter of 1974 and the first quarter of 1975 reflects a shift on the part of the business community from inventory investment to inventory liquidation.

As production declined much of our industrial capacity was idled, and this has left its mark on commodity prices. Sensitive prices of industrial raw materials had already begun to weaken in the spring of 1974. By late fall the effects of declining business activity began to show up in wholesale prices of intermediate materials, supplies, and components, and later on in prices of finished goods. Since November the over-all index of wholesale prices has moved down, with farm prices falling substantially and the advance of industrial prices moderating. In recent months the index of consumer prices has also risen less rapidly than during 1974, and the prices of many products have been marked down in retail markets.

These price developments have served as a significant stimulus to consumer spending. Although after-tax incomes of consumers in the first 3 months of this year were lower in real terms than in the final months of 1974, consumer purchases—especially of durable goods—have perked up in response to price concessions on autos and other items. In fact, consumer expenditures rose in real terms as well as in dollars during the first quarter. Largely for this reason the efforts of business firms to work down their excess stocks have been notably successful, and inventories are now in better balance with sales.

This has been one of the economic adjustments needed to lay the basis for recovery in production and employment. Other corrective adjustments have also been under way. Business managers have been moving energetically to improve efficiency—by concentrating produc-

tion in more modern installations, eliminating wasteful expenditures here and there, stimulating employees to work more diligently, and working harder themselves. Significant progress has also been made in strengthening the financial position of business. Exceptionally large amounts of longer-term securities have been issued by corporations this year, and stock offerings have also increased somewhat. A part of the proceeds of these financings has been used to repay short-term debt, thereby improving corporate liquidity.

Financial institutions have also improved their financial condition. Commercial banks have taken advantage of the reduced demand for business loans to repay their borrowings from Federal Reserve Banks, reduce reliance on volatile sources of funds, and rebuild liquid assets. At nonbank thrift institutions, the rapidly rising inflow of deposits has likewise permitted a reduction of indebtedness and an addition to liquid asset holdings. Thus, financial institutions are now in a better position to meet the needs for credit that will accompany the renewal of economic expansion.

No one can foresee with confidence when an economic recovery will begin. Signs are emerging, however, that the turn in business activity may not be far away.

For example, new mortgage loan commitments by savings and loan associations have risen strongly since last October. Industrial production and total employment fell further in March, but the declines were much smaller than in the previous 4 months. Prices of sensitive industrial raw materials have stabilized recently as supply and demand have come into better balance. Sales of goods at retail—apart from autos—rose further in March. Of late, consumer surveys have indicated that there is some improvement in confidence. And stock prices, another indicator of confidence, have continued to rise briskly.

Prospects for an upturn in economic activity have also been strengthened by passage of the Tax Reduction Act of 1975. The large rebate of 1974 tax liabilities, the additional payment to social security beneficiaries, and the reduction in withholding of 1975 taxes will soon add to disposable incomes and bolster consumer spending. Larger consumer buying will help to stem the erosion in business investment plans, and the liberalization of the investment tax credit will also stimulate business capital outlays. More business investment is urgently needed not only to provide additional jobs but also to improve the

capacity and efficiency of our industrial plants—thereby contributing to moderation of inflationary pressures.

Let me turn now to the contribution that monetary policy has made to establishing a basis for recovery in business activity.

Once evidence began to accumulate during the summer of last year that economic activity was weakening, the Federal Reserve took steps to ease credit conditions and bolster growth rates of the monetary aggregates. Open market operations became more accommodative, and as the year progressed they were persistently directed toward more ample provision of reserves to the banking system. Other monetary instruments reinforced open market policy. Reductions of reserve requirements of member banks were ordered last September, November, and again this January. The discount rate was also reduced—once in each month from December through March.

These Federal Reserve actions to augment the supply of loanable funds, together with the weakening of private demands for credit, had a dramatic effect on short-term rates of interest. For example, the Federal funds rate—the rate banks pay when borrowing reserves from one another—has declined from a level of about 13½ per cent, registered in July of last year, to about 5½ per cent at present. The interest rate on commercial paper declined from more than 12 per cent last July to around 6 per cent. And the prime rate of interest on bank loans to businesses has fallen from 12 to 7½ per cent.

Short-term market rates of interest in the United States fell earlier, more rapidly, and to lower levels than in other industrial countries. Consequently, investors were able to obtain higher yields by shifting funds out of dollar assets into investment in other currencies. These interest rate differentials help to explain the large decline that occurred in the foreign-exchange value of the dollar between September 1974 and early March of this year. During recent weeks short-term interest rates in foreign countries have declined relative to those here, and the dollar has strengthened in exchange markets.

In the markets for long-term securities, interest rates in the United States have also declined from their previous peaks, although much less than short-term rates. Of course, long-term rates typically fluctuate within a narrower range than short-term rates; but in the present instance, other powerful factors have also been at work. Fears of inflation are still widespread in the business and financial community,

and long-term interest rates therefore still contain a sizable inflation premium. Moreover, as I noted earlier, corporations have issued an enormous volume of bonds in the past several months, and State and local governments have also borrowed large sums in the capital markets.

More recently, the huge financing demands of the Treasury have become a major disturbing element in the money and capital markets. By the end of this fiscal year, new Federal borrowing—including borrowing by the off-budget agencies and Government-sponsored enterprises—will probably amount to more than \$60 billion. A large part of that total deficit is due to the recession, and it has been financed thus far without undue difficulty because private credit demands have been declining. During the next fiscal year, however, the total deficit will rise to perhaps as much as \$100 billion. Participants in financial markets recognize that private credit demands, too, may be rising soon, and they have therefore become concerned about the strains that may develop in financial markets.

The Federal Reserve has responded to these developing tensions in the capital market by shifting the emphasis in its open market operations from Treasury bills to longer-term Government securities. Since the end of February System purchases of coupon issues of the Treasury and Federal agencies have amounted to almost \$2.5 billion. In view of the limited scope of the market for longer-term Federal securities, this is a very large volume of buying in a short span of time.

These purchases have been helpful in steadying the bond market. But let there be no mistaking the fact that Federal Reserve operations in the market can have only an ephemeral influence on long-term interest rates. The fundamental factor forcing up long-term interest rates in recent years has been the high rate of inflation. Appreciably lower long-term interest rates are needed now to stimulate economic expansion, but they are unlikely to be attained unless further progress is made in bringing inflation under control.

Success in this endeavor will require more fiscal discipline than we have managed to achieve in recent years. It will also require a course of moderation in monetary policy—a course that will provide an expansion in supplies of money and credit adequate to facilitate a good economic recovery but not so large as to rekindle the fires of inflation.

What the Federal Reserve has been trying to accomplish in this regard cannot be understood adequately by focusing on a single measure of money balances. Some observers believe that the Federal Reserve should devote almost exclusive attention to the behavior of the narrowly defined money supply (M_1)—that is, currency plus demand deposits—in the conduct of monetary policy. We in the Federal Reserve do not take so narrow a view of our responsibilities.

The public's demands for currency, for checking deposits, for savings deposits, and for a host of other liquid assets are constantly changing. Financial technology in our country has developed rapidly in the past 20–30 years. As a rule, consumers and business firms no longer hold all, or even most, of their spendable funds in the form of currency or demand deposits. More and more corporate treasurers have learned how to get along with a minimum of deposits in their checking accounts. Consumers, too, are learning to keep an increasing part of their transactions and precautionary balances in the form of savings deposits at commercial banks, of shares in savings and loan associations, of certificates of deposit, of Treasury bills, or other income-earning liquid instruments. Moreover, as yields vary, many individuals and business firms have become accustomed to shifting their liquid resources frequently among these assets. The result is that no single concept of money now conveys adequately the spendable funds held by the public.

The behavior of the narrowly defined money supply, M_1 , can prove to be a misleading guide to the degree of monetary ease or restraint. For example, in periods of declining economic activity, weakness in transactions demands for cash and in business and consumer demands for credit will tend to slow the growth of M_1 . But during such periods market rates of interest usually decline and stimulate faster rates of growth of consumer-type deposits at banks and nonbank thrift institutions.

For example, the growth of M_1 since last summer had been quite modest until recent weeks. The annual rate of increase in this measure of money was 1.6 per cent during the third quarter of 1974, 4.6 per cent in the fourth quarter, and 3.5 per cent in the first quarter of this year. Over this time span, however, the annual rate of growth of consumer-type time deposits at commercial banks increased from 7.1 per cent during the third quarter of 1974 to 12.7 per cent in the first

quarter of 1975. The improvement in deposit inflows to nonbank thrift institutions—that is, mutual savings banks, savings and loan associations, and credit unions—was even more pronounced.

During periods of economic expansion, the behavior of M_1 may again be misleading. At such times large demands for credit and money are likely to strengthen the growth of M_1 , but interest rates will tend to rise and thereby curtail the flow of interest-bearing deposits to banks and savings institutions. A monetary policy formulated on the basis of M_1 alone would ignore the pressures of disintermediation that develop in periods of economic expansion and thus threaten further damage to the mortgage market and to the homebuilding industry.

In an effort to avoid errors of this kind, the Federal Reserve takes into account the behavior of a variety of monetary and credit aggregates in conducting monetary policy. We also pay careful attention to the condition of financial markets—that is, to movements in interest rates, lending terms, the liquidity needs of businesses and financial institutions, and other variables, including the international value of the dollar, all of which must be given weight in the conduct of monetary policy.

Included with my statement today are four tables. Two show the recent behavior of a number of the principal monetary and credit aggregates, and the others show the recent behavior of the various components of the several measures of money.

Growth in measures of money and credit

Seasonally adjusted percentage change, at annual rates

Year or quarter	M_1	M_2	M_3	M_4	M_5	Credit proxy
1972.....	8.7	11.1	13.2	12.5	14.0	11.3
1973.....	6.1	8.8	8.8	11.6	10.6	10.4
1974.....	4.7	7.4	6.8	10.8	9.1	10.2
1974—Q1.....	5.5	9.3	8.9	10.9	10.0	8.2
Q2.....	7.0	7.9	6.8	15.4	11.6	20.4
Q3.....	1.6	4.5	4.0	6.0	5.1	6.7
Q4.....	4.6	7.0	7.0	9.2	8.6	4.2
1975—Q1.....	3.5	8.5	10.3	7.2	9.2	3.1

NOTE.—These percentage rates of growth are calculated from average levels in last months of the annual or quarterly periods. Percentage rates of growth based on quarterly average data would show a somewhat different pattern.

Let me describe briefly what is encompassed in each of these money and credit measures. M_1 , as I have already noted, includes currency in circulation plus demand deposits at commercial banks. M_2 is derived by adding to M_1 the time deposits at commercial banks other than large-denomination negotiable certificates of deposit (CD's). M_3 is obtained by adding to M_2 the time and savings deposits held at nonbank thrift institutions—that is, savings banks, savings and loan associations, and credit unions. M_4 is obtained by adding large CD's to M_2 ; M_5 is derived by adding large CD's to M_3 . This last measure, M_5 , is the most comprehensive of this group, for it includes the currency holdings of the public plus deposits at all financial institutions. Finally, the credit proxy indicates the funds that member banks of the Federal Reserve System have available for lending and is thus an indicator of changes in their total loans and investments.

Each of these magnitudes reflects a different dimension of monetary policy. For example, the annualized growth rate of M_1 in the first quarter of this year was 3.5 per cent, as noted earlier. Growth in the credit proxy was marginally lower—reflecting, in part, an outright decline in the outstanding volume of CD's and of nondeposit liabilities of member banks. The other measures of money, on the other hand, show growth rates in the 7 to 10 per cent range, or about as high as in 1973.

Of late, there has been some concern in the Congress and elsewhere that supplies of money and credit were not growing rapidly enough. This judgment, based largely on the behavior of M_1 , could have been avoided by taking a more comprehensive view of the economy's needs for money, credit, and liquid assets, and how these needs are met by our complex financial system.

We in the Federal Reserve recognize that the growth rates of money and credit that are appropriate at any moment of time depend on underlying economic conditions. At present, our Nation is experiencing very high rates of unemployment and idle industrial capacity. Thus, even though an upturn in business activity may be near at hand, the restoration of full employment of our labor and capital resources will remain a central objective of public policy for many months to come.

The Federal Reserve System is presently seeking a moderate rate of expansion in the monetary and credit aggregates. We believe that the

course we are pursuing will promote an increase in M_1 of between 5 and 7½ per cent over the 12 months from March 1975 to March 1976. This is a rather high rate of expansion by historical standards, but it is not too high when idle resources are extensive and financing needs still reflect rising prices.

A growth rate of M_1 in the range of 5 to 7½ per cent would, we believe, be accompanied by higher rates of increase in the other major monetary and credit aggregates—ranging from 8½ to 10½ per cent for M_2 , 10 to 12 per cent for M_3 , and 6½ to 9½ per cent for the credit proxy. Increases of this order of magnitude would imply a good inflow of deposits to nonbank intermediaries and a relatively ample supply of mortgage funds.

Levels of money and credit measures

Seasonally adjusted, billions of dollars

Year or quarter	M_1	M_2	M_3	M_4	M_5	Credit proxy
1972—Dec.....	255.8	525.7	844.9	569.7	888.8	406.4
1973—Dec.....	271.5	572.2	919.6	636.0	983.4	448.7
1974—Dec.....	284.3	614.3	982.5	704.6	1,072.8	494.3
1974—Mar.....	275.2	585.5	940.0	653.4	1,007.9	457.9
June.....	280.0	597.1	955.9	678.5	1,037.2	481.2
Sept.....	281.1	603.8	965.5	688.7	1,050.3	489.2
Dec.....	284.3	614.3	982.5	704.6	1,072.8	494.3
1975—Mar.....	286.8	627.4	1,007.8	717.2	1,097.5	498.1

These rates of monetary and credit expansion are sufficient, we believe, to finance a vigorous economic recovery. If past experience is any guide, the strength of the recovery will depend principally on the willingness of the public to use existing money balances, rather than on the growth rate of the money stock. The first few quarters of a cyclical recovery in business activity typically witness increases in the turnover of money that are much larger than the rate of rise in the money stock. This characteristic of business-cycle experience is of vital importance to monetary policy, and it must never be neglected.

We recognize that our capacity to foresee the future is very limited and that our control of the monetary and credit aggregates is imperfect. The growth ranges for the aggregates we have set out to achieve

may need to be adjusted in one way or another. New information on economic and financial developments becomes available daily, and the course of monetary policy must therefore be reappraised continuously. In an economy as dynamic as ours, subject to unforeseen developments—such as a major business failure or a disruption of energy supplies—the economic and financial outlook can change quickly and dramatically. The Federal Reserve must stand ready to make promptly such adaptations in the course of policy as may be needed to minimize economic and financial difficulties. The Board and the Federal Open Market Committee therefore meet frequently. Thus, while I have given you our present views on the appropriate ranges of growth in the monetary and credit aggregates, these views may need to be modified a month or two from now.

Growth in components of money stock measures

Seasonally adjusted percentage change, at annual rates

Year or quarter	Currency	Demand deposits	Commercial bank time deposits other than CD's	Nonbank depositary claims ¹	CD's
1972.....	8.2	8.9	13.5	16.8	31.0
1973.....	8.3	5.5	11.4	8.9	45.3
1974.....	10.1	3.2	9.7	6.0	41.5
1974—Q1.....	11.0	3.8	12.8	8.2	26.3
Q2.....	8.2	6.6	8.8	4.9	78.2
Q3.....	8.0	-.2	7.1	3.1	17.2
Q4.....	11.5	2.4	9.0	7.4	25.9
1975—Q1.....	9.4	1.7	12.7	13.1	-2.2

¹ Deposits in mutual savings banks, savings and loan associations, and credit unions.

NOTE.—These percentage rates of growth are calculated from average levels in last months of the annual or quarterly periods. Percentage rates of growth based on quarterly average data would show a somewhat different pattern.

The rates of growth in monetary and credit aggregates presently desired by the Federal Reserve, while appropriate in the present environment, could not be maintained indefinitely without running a serious risk of releasing new inflationary pressures. As the economy returns to higher rates of resource utilization, it will be necessary to reduce the rate of monetary and credit expansion so that the basis for a lasting prosperity is laid.

Let me remind this committee that the principal cause of the cur-

Levels of components of money stock measures

Seasonally adjusted, billions of dollars

Year or quarter	Currency	Demand deposits	Commercial bank time deposits other than CD's	Nonbank depository claims ¹	CD's
1972—Dec.....	56.9	198.9	269.9	319.1	43.9
1973—Dec.....	61.6	209.9	300.7	347.4	63.8
1974—Dec.....	67.8	216.6	330.0	368.3	90.3
1974—Mar.....	63.3	211.9	310.3	354.5	68.0
June.....	64.6	215.4	317.1	358.8	81.3
Sept.....	65.9	215.3	322.7	361.6	84.8
Dec.....	67.8	216.6	330.0	368.3	90.3
1975—Mar.....	69.4	217.5	340.5	380.4	89.8

¹ Deposits in mutual savings banks, savings and loan associations, and credit unions.

rent recession is our earlier failure to bring inflation under control. As the pace of inflation quickened in recent years, the seeds of recession were sown across the economy. Rising prices eroded the purchasing power of workers' incomes and savings. Managerial practices of business enterprises became lax, productivity languished, and corporate profits diminished—a fact that businessmen were slow to recognize because of faulty accounting techniques. New homes, recreational dwellings, and condominiums were built on a scale that greatly exceeded the underlying demand. Inventories of raw materials and other supplies piled up, often at a reckless pace, as businessmen reacted to fears of shortages and still higher prices. Credit demands, both public and private, soared and interest rates rose to unprecedented heights. Commercial banks became overextended; the quality of loans tended to deteriorate, and the capital position of many banks was weakened.

These basic maladjustments are now being worked out of the economic system by recession—a painful process that could have been avoided if the inflation had not gotten out of control. Fortunately, the rate of inflation has declined substantially in recent months, but the behavior of prices is still unsatisfactory. The general price level still appears to be rising at a 7 to 8 per cent annual rate; wage increases continue to exceed by a wide margin the long-run trend of productivity; and interest rates remain at high levels by historical standards. The menace of inflation is by no means behind

us. Defeat of inflationary forces must therefore remain a major goal of public policy.

The Federal Reserve is firmly committed to do what it can to restore general price stability in this country. The Federal Reserve is also firmly committed to restore full employment in this country.

During the next year this Nation can, and I believe it will, make progress toward the achievement of both of these objectives. The immediate need is to get the economy moving again. But as we go forward, I hope we will be mindful of the damage that has been wrought in our economy by allowing inflation to get out of control, and that we will deal resolutely with the serious longer-range economic problems facing our country. A better measure of discipline is needed in Federal finances. The progressively diminishing fraction of the national income that goes to people who work and invest requires searching scrutiny. Regulatory practices that weaken private enterprise need to be relaxed or scrapped. Ways must be found to stimulate production of energy supplies, to increase incentives for expansion and modernization of productive capacity in other lines, and to strengthen the state of business finances.

Attention to these longer-range problems is essential; for the critical task now facing our country is not only to encourage the process of economic recovery but also to build a solid foundation for our Nation's economic future.

**STATEMENT BEFORE THE COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS,
U.S. HOUSE OF REPRESENTATIVES, JULY 24, 1975**

I welcome this opportunity to discuss the condition of the national economy and to convey the Federal Reserve's views on monetary policy.

The performance of our economy during the past 2 years has been disappointing. We have suffered the most damaging peacetime inflation in our Nation's history, a critical shortage of energy supplies, and the deepest decline in business activity since the end of World War II. Similar problems have plagued practically every industrial country in the world.

The recession of 1974-75 in our country will, I believe, be viewed by economic historians as the culminating phase of a long cycle in

economic activity that began in 1961. During the industrial phase of the long upswing—from 1961 through 1964—productivity grew rapidly, prices remained quite stable, and real wages and profits kept advancing. During the next 10 years—from 1965 through 1974—the strength of the American economy was gradually undermined. A succession of interrelated, partly overlapping, waves of speculation occurred—first in merging business enterprises and organizing conglomerates, next in the stock market, then in the real estate market, and finally in the markets for industrial materials and other commodities. During this long speculative phase, productivity languished and expansion in the physical volume of output decelerated, while the pace of inflation kept quickening—mainly, but by no means entirely—in response to the lax financial practices of the Federal Government. Bad harvests, extraordinary increases in the price of oil, another devaluation of the dollar, and the coincidence of booming business around the world played their part in the inflationary process during 1973 and 1974.

As a result of these myriad developments, seeds of recession were sown across the economy. Inflation led to a burgeoning of credit demands, both public and private, and interest rates soared to unprecedented heights. Rising consumer prices eroded the purchasing power of workers' incomes and savings. The sharp rise in the price of oil caused a diversion of purchasing power to foreign suppliers. Corporate profits diminished—a fact that businessmen were slow to recognize because of accounting techniques that failed to take account of inflation. Construction of new dwellings and office buildings proceeded on a scale that greatly exceeded underlying demand. And inventories of commodities piled up, often at a very rapid pace, as businessmen reacted to fears of shortages and of accelerating price increases.

By the spring of 1973, signs of faltering in the pace of economic expansion had already emerged. Homebuilding began to turn down and so too did sales of mobile homes, new autos, and other big-ticket consumer items. A declining trend in the physical volume of other goods purchased by consumers soon followed. These developments, however, were largely overlooked by a business community caught up in the euphoria created by inflation. New orders flowing to manufacturers continued to rise, order backlogs generally increased, and stockpiles of materials and other commodities mounted. By the sum-

mer of 1974, the physical volume of business inventories was already higher in relation to sales than at any time since the Korean war. The stage was thus set for a significant economic adjustment.

The recession that ensued has cut deeply into the Nation's economic life. Between September 1974 and May 1975, industrial output fell by 12½ per cent. Total employment dropped by 2½ million from its peak in October 1974 to a low in March of this year. And the rate of unemployment rose from less than 5 per cent in late 1973 to perhaps 9 per cent at the present time.

In view of the serious economic imbalances caused by inflation, the recession has been performing a painful, but unavoidable, function. Corrective forces have been released, and they have helped lay the basis for a renewal of sound economic expansion.

Thus, business competition is now much keener than it was a year or two ago. Business managers are also devoting more attention to cost control and improvements in efficiency. Prices of industrial raw materials have fallen substantially. Price increases at later stages of processing have also become less extensive. The rise of the general price level has therefore slowed—from an annual rate of about 12 to 14 per cent late last year—to about half that rate recently. Increases of wage rates, moreover, have moderated, although they still are much higher than the long-run rate of improvement in productivity. Meanwhile, stock prices—a significant indicator of the state of confidence—have risen substantially.

The slowdown in the pace of inflation and the revived stock market have bolstered the confidence of the general public. Early this year, as price concessions on autos and other items became common, consumer purchases—especially of durable goods—began to pick up. In fact, consumer expenditures during the first quarter rose in real terms as well as in dollars. This strengthening continued in the second quarter, as spendable incomes of consumers were augmented—first by tax rebate checks, later by extra social security checks. With consumer buying expanding and production declining, the efforts of business firms to work down their excess stocks have been remarkably successful. Inventories of most consumer goods now seem to be in rather good balance with sales.

Significant progress has also been made in improving the financial position of business firms. Corporations have issued exceptionally

large amounts of longer-term securities this year, and they have used much of the proceeds to repay short-term debt or to acquire liquid assets. The liquidity position of consumers has likewise been strengthened; instalment debts to banks and other lenders have been paid down, and many millions of individuals have added substantially to their savings deposits and other liquid assets.

Financial institutions, too, have improved their financial condition. Commercial banks have taken advantage of the reduced demand for business and consumer loans to repay their borrowings from Federal Reserve Banks, to reduce their reliance on volatile sources of funds, and to rebuild liquid assets. In their turn, savings and loan associations and mutual savings banks reduced their indebtedness and enlarged their holdings of Treasury securities and other liquid assets, thus laying the basis for a renewed expansion of mortgage lending in recent months.

These self-corrective forces have been aided powerfully by fiscal and monetary policies that sought to cushion the effects of economic adversity, moderate recessionary forces, and provide some stimulus to economic recovery. I need not dwell on the fiscal measures that have been adopted to combat recessionary forces; these measures have already been widely discussed. Let me note merely that I believe the Congress acted wisely in providing only a temporary fiscal stimulus through the Tax Reduction Act of 1975. The confidence of our citizens in the Nation's economic future has been bolstered by evidence that responsible members of both the executive and legislative branches of our Government are seeking ways to stimulate recovery without releasing a new wave of inflation.

This principle has also guided monetary policy. Last summer, as signs of weakening in economic activity multiplied, the Federal Reserve began taking steps to increase the availability of money and credit. Open market operations were oriented toward a more liberal provision of reserves to the banking system; later, these actions were reinforced by several reductions in the discount rate and in reserve requirements.

During the fall and winter months the demand for credit by businesses and consumers weakened on account of the recession, and commercial banks used the more abundant supply of reserves to repay their indebtedness to the Federal Reserve. Growth in M_1 , that is,

currency plus demand deposits, was therefore slow to reflect the easing of monetary policy. We at the Federal Reserve were concerned about this development, but we refused to run the risk of releasing fresh inflationary forces and rekindling inflationary expectations. In any event, broader monetary aggregates displayed a more vigorous response to our easing actions. For example, flows of individual savings into commercial banks and thrift institutions began to pick up in the fourth quarter of 1974, and by the first quarter of this year these deposits were expanding at a seasonally adjusted annual rate of more than 13 per cent. In fact, recent rates of growth of the monetary aggregates have been generally higher than during comparable periods of earlier postwar recessions.

The efforts of the Federal Reserve to ease credit conditions, together with the weakening of private credit demands, resulted in a sharp decline of short-term rates of interest. The Federal funds rate—that is, the interest rate banks pay when borrowing reserves from one another—fell from a high of 13½ per cent last summer to about 5¼ per cent in early June. The commercial paper rate declined from more than 12 per cent last July to a low of about 5½ per cent. And the prime rate of interest on bank loans to businesses fell from 12 per cent to a low of 7 per cent.

In the markets for long-term securities interest rates also declined, although much less than short-term rates. Of course, long-term rates typically fluctuate within a narrower range than short-term rates; but in the present instance, other powerful factors have also been at work. Fears of inflation are still widespread, and long-term interest rates therefore still contain a sizable inflation premium. Moreover, corporations have issued an enormous volume of bonds in the first half of this year; State and local governments have borrowed large sums in the capital markets; and troublesome uncertainties have been created by the financial problems of some borrowers in the municipal bond market. Also, the huge financing demands of the Treasury have been a disturbing element in the money and capital markets.

Despite these problems conditions in financial markets have greatly improved over the past 6–9 months, and a financial basis has been established for an upturn in business activity.

Signs have multiplied in recent weeks that the economy is moving through a turning zone from recession to recovery. As already noted,

retail sales have been gaining strength progressively since early this year. The appreciable pick-up in new auto sales over the past several months is continuing. Sales of new houses started rising early this year, and as the backlog of unsold units declined building permits and new housing starts also began to move up.

With excess inventories at retail, at wholesale, and at manufacturing firms being worked off and the curve of consumer sales still rising, businessmen have become more optimistic about the future. New orders for durable goods—an important leading indicator of industrial activity—have of late been rising again. Moreover, industrial production, after having declined for eight consecutive months, registered its first advance in June.

In the labor market, too, there are numerous signs of improvement. The range of nonfarm industries adding to the number on their payrolls has been widening steadily, from a low of 17 per cent in February to about 50 per cent in May and June; total employment has increased by 600,000 over the past 3 months; the average factory workweek has lengthened; and, of late, initial claims for unemployment insurance have dropped sharply.

We may be reasonably confident, therefore, that a recovery in business activity will develop soon if it is not already under way. How strong the recovery will be no one can foresee with any assurance. There are ample amounts of idle labor and capital resources to permit rapid growth over the next several quarters. Past cyclical experience suggests, moreover, that a steep decline in business activity such as we have experienced is usually followed by a brisk recovery.

A central objective of Federal Reserve policy at the present time is to contribute to a substantial expansion in output and employment. The vigor of economic recovery, however, will depend less on the rate of expansion in money and credit than on the confidence of the public—in particular, the willingness of businesses and consumers to put the enormous volume of existing money balances to work.

The turnover of money, or its velocity, varies widely in the course of a business cycle. During the first year of earlier postwar recoveries, the velocity of M_1 —that is, the ratio of the dollar value of the gross national product to the narrowly defined money supply—has usually risen about 5 or 6 per cent, compared with a rate of increase in M_1 of around 3 or 4 per cent. As confidence in the economy improves in

the months ahead, the velocity of money—which declined during the past several quarters—will probably increase significantly. This factor is frequently neglected by economists and others, but we at the Federal Reserve cannot afford to do so.

In conducting monetary policy, we will also have to remain mindful of the urgency of dealing with the longer-run problem of inflation as well as with the current problem of unemployment. Economic recovery is apparently beginning at a time when the rate of inflation, while lower than a year ago, is still well above a tolerable pace. Our objective as a Nation should be to achieve further moderation in the advance of the general price level over the months ahead, and we shall therefore need to avoid actions that threaten an acceleration of inflation later on—a development that would create even more intractable economic problems than we have yet encountered. I was glad to see the Senate Committee on Banking, Housing, and Urban Affairs recognize this basic truth in its recent report on monetary policy, which states unequivocally that “if inflation is rekindled, any recovery will be short-lived and will end in another recession, one almost certain to be more virulent than the present one.”

In testifying before that committee on May 1 of this year, I indicated that the course of monetary policy cannot be understood adequately by focusing on any single measure of money balances. Some observers believe that the Federal Reserve should devote almost exclusive attention to the behavior of M_1 —that is, currency plus demand deposits. We in the Federal Reserve do not take so narrow a view of our responsibilities.

The public's demand for currency, for checking deposits, for savings deposits, and for a host of other liquid assets is constantly changing. Financial technology in our country has developed rapidly in the past 20–30 years. As a rule, consumers and business firms no longer hold all, or even most, of their spendable funds in the form of currency or demand deposits. More and more corporate treasurers have learned how to get along with a minimum of deposits in their checking accounts. Consumers, too, have learned to keep an increasing part of their transactions and precautionary balances in the form of savings deposits at commercial banks, or deposits in savings and loan associations, or certificates of deposit, or Treasury bills, or shares in money market funds, or other income-earning liquid instruments. These

trends are likely to continue. Use of so-called negotiable order of withdrawal (NOW) accounts and other interest-bearing deposits for transactions purposes is growing, and electronic fund transfer systems may well revolutionize the payments mechanism and the forms in which money is held. In this day and age no single concept of money conveys adequately the spendable funds held by the public.

Viewed in isolation, the behavior of the narrowly defined money supply, M_1 , can actually be a misleading guide to the degree of monetary ease or restraint. For example, in periods of declining economic activity, both the transactions demand for cash and the private demand for credit will tend to weaken and thus slow the growth of M_1 . But during such periods market rates of interest usually decline and thereby stimulate faster rates of growth of consumer-type deposits at commercial banks and other financial institutions.

During periods of economic expansion, the behavior of M_1 may again be misleading. At such times large demands for credit and money are likely to strengthen the growth of M_1 , but open market interest rates will tend to rise and thereby curtail the flow of individual savings to banks and thrift institutions. A monetary policy formulated on the basis of M_1 alone would ignore the pressures of disintermediation that develop in periods of economic expansion and thus threaten serious damage to the mortgage market and to the homebuilding industry.

To avoid errors of this kind, the Federal Reserve takes into account the behavior of numerous monetary and credit aggregates in conducting monetary policy. Among these is M_2 , which includes—besides currency and demand deposits—consumer-type time deposits at commercial banks; M_3 , a still broader composite, which includes also the deposits at savings banks, savings and loan associations, and credit unions; M_4 , which starts with M_2 and adds large certificates of deposit issued by commercial banks; M_5 , which is more comprehensive than any of the preceding aggregates because it includes the currency holdings of the public plus all deposits at all financial institutions; and also the credit proxy, which indicates the funds that member banks have available for lending.

Besides following these and still other aggregates, we pay careful attention to the condition of financial markets—that is, to movements in interest rates, lending terms, the liquidity needs of businesses and

financial institutions, and other variables, including the foreign exchange value of the dollar. All of these must be given some weight in the conduct of monetary policy.

On May 1 of this year, I informed the Senate banking committee that the Federal Reserve was seeking a moderate rate of expansion in the monetary and credit aggregates, and that the course we are pursuing will promote an increase in M_1 of between 5 and 7½ per cent over the 12 months ending in March 1976. It was expected that the related growth rates of other major aggregates would be somewhat higher—with M_2 increasing in a range of 8½ to 10½ per cent; M_3 , in a 10–12 per cent range; and the credit proxy, in a range of 6½ to 9½ per cent.

Economic prospects now are not materially different than the Federal Reserve anticipated 2 or 3 months ago, and we therefore as yet see no reason to alter the general course of monetary policy. Accordingly, the Federal Open Market Committee has reaffirmed its intent to seek the growth ranges announced earlier. In view of the erratic movements to which monthly figures on money balances are subject, the projected growth ranges for the several aggregates now cover the 12-month span from the second quarter of 1975 to the second quarter of 1976. In the future, we will generally express our projected growth range of each monetary aggregate from a quarterly base because a 3-month average is less subject to erratic movements than is a single-month base.

We have recently experienced some extreme short-run fluctuations in the growth rate of money balances. Such movements may give rise to confusion regarding the course of monetary policy. It may be helpful, therefore, to comment on the huge bulge in the rate of growth of the monetary aggregates during May and June.

This bulge was a direct result of the tax bill passed earlier this year by the Congress. The tax rebate checks and supplemental social security payments disbursed by the Treasury were temporarily added to the public's holdings of currency, demand deposits, and savings accounts. Thus, M_1 grew at an average annual rate of more than 14.5 per cent during the months of May and June, and M_2 increased at a rate of about 16 per cent. But by late June and early July, as individuals disposed of their additional funds, the explosion of the monetary aggregates subsided.

The May–June bulge in the monetary aggregates did not come as a surprise, but it was larger than we had expected—and very much larger than we desired. It must be clearly understood that the Federal Reserve has no intention of permitting rates of increase as high as those in the second quarter to continue. The special Treasury disbursements have come to an end; and the Federal Reserve has already set in motion forces that should, in the near future, return the growth of the monetary aggregates to the moderate path desired. True, these recent actions have left their mark on short-term market rates of interest. But we have succeeded in avoiding during the past 2 to 3 months the severe and damaging effects on credit markets that would have occurred if we had pursued a rigid money supply objective such as some economists keep urging on us.

As recent experience indicates, short-run variations in the stock of money may not at all reflect the intent or the underlying course of Federal Reserve policy. My colleagues and I have frequently noted that short-run movements of the monetary stock have little significance, and it is good to have the opportunity to state once again that far more attention is given to these short-run fluctuations than is warranted. Actually, our studies indicate that large deviations in the growth of money from a long-run path may occur for half a year or even longer and still have a negligible effect on the workings of the real economy. We must learn to recognize that monthly fluctuations such as those in the rate of growth of the money stock, however defined, are characteristic of almost any series in which monthly changes are small relative to the level of the series.

In view of considerations such as these, the Federal Reserve focuses its attention principally on an appropriate growth of money balances over periods running from 6 months to a year. Unfortunately, our ability to control this longer-run rate of monetary expansion is less precise than it should or could be. Deficiencies in existing statistical data are part of the problem. Steps have been taken by the Federal Reserve to speed the collection of data and to improve its quality. We have also been exploring, with the cooperation of the FDIC, methods to obtain better estimates of money balances held at nonmember banks. The information now available regarding demand deposits at nonmember banks is entirely inadequate and at times has misled the Federal Reserve and the public as to the actual course of monetary expansion.

Our control over the Nation's money stock would be imprecise, however, even with the best of statistical information. The Federal Reserve's influence over the money stock is indirect. The principal means we use to regulate the growth of money and credit is to buy or sell government securities in the open market. These transactions are taken at our initiative and in such dollar amounts as we deem appropriate. The size of the Federal Reserve's portfolio of securities is thus under our control. The response of the money stock to an open market purchase or sale, however, is determined by decisions of commercial banks and of the public at large—decisions over which we have no control.

For example, a purchase of securities by the Federal Reserve would lead to little or no increase in the reserves of member banks if there were an equivalent rise in the public's holdings of currency, or if member banks used the additional funds to repay indebtedness to their Federal Reserve Banks. Alternatively, member banks might choose to add to their excess reserves instead of employing the newly acquired funds for lending or investing. In that event, there would be no multiplier effect of reserve expansion on deposit creation.

The choices made by the public as to the form in which newly created deposits are held and the type of commercial bank in which the funds are deposited also influence the response of the money stock, particularly M_1 or M_2 , to a reserve injection. The response of the narrowly defined money supply would be larger if the public increased its holdings of demand deposits at smaller member banks because reserve requirements at these banks are lower than those at the larger member banks. And, of course, the freedom of the public to choose between demand and time deposits can alter materially the amount of aggregate deposits that can be supported by a given volume of reserves.

Part of the imprecision in monetary control also arises from the fact that a sizable fraction of money balances is held at banks that are not subject to the reserve requirements set by the Federal Reserve. Once the Congress sees fit to adopt the legislation on uniform reserve requirements that we have been seeking for several years, the Federal Reserve's control over the monetary aggregates will be improved and financial institutions offering similar deposit services will at the same time be treated more equitably.

In closing, let me remind this distinguished committee that the growth ranges for the monetary aggregates that we have projected for the next year may need to be adjusted one way or another. Clearly, the growth rates presently sought by the Federal Reserve, while appropriate in the present environment of high unemployment and unused industrial capacity, could not be maintained indefinitely without rekindling inflationary forces. As the economy returns to higher rates of resource utilization, it will be necessary to reduce the rate of monetary and credit expansion so that the basis for a lasting prosperity is laid.

We must not lose sight of the fact that the principal cause of the current recession is an inflation that got out of control. Our Nation has paid a heavy price during the past year for neglect of this serious problem. All of us in Government must work to promote a good recovery in economic activity; but all of us must also take great care lest the hard-won gains of the past year are nullified by a new round of inflation. The rise of the consumer price level in June at an annual rate of more than 9 per cent is a warning that the menace of inflation is still very much with us. The task now facing our country, therefore, is not only to hasten the process of economic recovery but also to unwind the inflation and thus lay the basis for a lasting prosperity.

**STATEMENT BEFORE THE COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS,
U.S. SENATE, NOVEMBER 4, 1975**

I am pleased to meet with this committee to report once again on the condition of the national economy and the course of monetary policy.

When I submitted to you the Federal Reserve's report on May 1, the American economy was at the trough of the deepest decline in production of the entire postwar period. Since then, a recovery of economic activity has gotten under way. Between April and September industrial production rose almost 6 per cent; each month's increase exceeded that of the month before, and the September increase was the largest in more than a decade. The scope of the recovery has also been broadening. Production of durable goods has advanced strongly of late, and the increase of activity in the nondurable goods sector—which began earlier—has continued. Improvement has spread beyond the Nation's factories, mines, and power plants, and the over-all

increase in the physical volume of production during the third quarter turned out to be one of the largest in recent years.

As real output moved upward, the demand for labor kept strengthening. Since March, total employment has risen by more than 1½ million. The average factory workweek has lengthened appreciably. Unemployment has declined from its peak in May despite a sizable increase of the labor force this year. And the increase of employment has become more widely diffused across the economy. Of the 172 nonfarm industries on which the Bureau of Labor Statistics reports, only 17 per cent experienced an increase of employment in February. The corresponding percentage rose with considerable regularity in succeeding months and reached 72 per cent in September.

As we look back, it is clear that the consumer led the way out of recession and into recovery. Early this year, when price concessions became fairly common, consumer purchases began to pick up. Consumer buying was further buttressed over the spring and summer months by tax rebate checks and supplementary social security checks. Retail sales of nondurable goods rose briskly; and as confidence improved, consumers also became more willing to dip into savings or incur new indebtedness in order to purchase big-ticket items. This is clearly evident in the automobile sector, where sales of new cars have been running recently at an annual rate of around 9½ million—a considerable advance from the 7 million rate of last November.

A sharp turnaround in foreign trade also helped to pave the way for economic recovery. Our trade balance was unfavorable throughout 1974, and the deficit reached an unprecedented \$9 billion annual rate in the third quarter of last year. But a deep cutback of imports—especially of fuel and industrial supplies—occurred during the recession, while the demand for our exports held up well. The result was a swing in our trade position to a surplus at an annual rate of more than \$13 billion in the second quarter of this year. There has been a significant rise of imports recently, as is to be expected during a cyclical expansion. Nevertheless, our trade surplus is still large, the over-all balance of payments remains favorable, and the dollar is again a highly respected currency around the world.

Sustained buying by foreigners and American consumers enabled business firms to make excellent progress in clearing their shelves of excess inventories. Liquidation of inventories got under way around

the beginning of this year, and in the second quarter the rate of decline was larger in relation to the gross national product than in any quarter of the entire postwar period. By early summer stocks were coming into reasonable balance with sales in most consumer lines, and many firms engaged in retail and wholesale trade therefore began to rebuild inventories. Meanwhile, the pace of inventory liquidation slowed considerably in the manufacturing sector. For business firms in the aggregate, inventory liquidation receded from an annual rate of about \$30 billion in the second quarter to a rate of \$10 billion in the third. This shift in business inventory investment has been a major factor in the recent sharp rise of our Nation's production of goods and services.

The willingness of businessmen to move further in replenishing depleted stockpiles, and thereby provide a continuing thrust to general business activity, will depend heavily on the strength of consumer demand. That in turn will be influenced materially by the real income of consumers, their financial position, and the state of confidence—all of which are linked to inflationary developments and prospects. In the Board's judgment, improvement of the economy is likely to continue at a satisfactory pace only if consumers and businessmen can reasonably look forward to some further abatement of cost and price inflation.

We as a Nation have made notable progress in reducing the rate of inflation that prevailed during 1974. Consumer prices rose over the first three quarters of this year at about half the pace recorded a year earlier. The rise in wholesale prices slowed even more. These improvements resulted mainly from slack demand in product markets and the competitive pressures that forced business managers to watch costs more closely and to enhance efficiency. These efforts have begun to bear fruit; output per manhour turned up in the second quarter—thus registering the first increase in more than 2 years—and rose further in the third.

Of late, however, there has been some worsening in the rate of inflation. Broad measures of price performance indicate a rise in the third quarter at an annual rate of around $7\frac{1}{2}$ or 8 per cent—compared with $5\frac{1}{2}$ per cent in the second quarter. To be sure, special factors—such as the unexpected Russian need for grain and the further rise of energy prices—were partly responsible for this development. But price increases have also occurred in a number of industries—autos,

steel, aluminum, and chemicals, among others—where considerable slack still exists. And the increase in the price of imported oil that went into effect on October 1 may well lead to price advances over a wide range of products in the months ahead.

Some step-up in the rate of increase in the general price level was perhaps unavoidable, in view of the vigor of economic recovery and the persistent rise of wages. Nevertheless, the quickening in the pace of inflation during recent months—in the face of high unemployment and widespread excess industrial capacity—is a clear warning that our long-range problem of inflation is unsolved and remains a threat to continuance of economic recovery.

Elimination of the long-run inflationary bias of our economy will require progress on numerous fronts, including a marked strengthening of business expenditures for new plant and equipment. Growth and modernization of the Nation's industrial capacity are essential to avoid a recurrence of capacity shortages in critical sectors of the economy, to lay the basis for greater improvements in productivity, and to expand job opportunities for our people.

As often happens in the early months of a cyclical upswing, business spending for fixed capital has lagged behind the recovery in other sectors. The rise that appears to have occurred recently in the production of business equipment is as yet inconclusive. Various indicators suggest, however, that an upturn of business capital investment may not be far away. Contracts for commercial and industrial construction have stabilized during recent months. New orders for nondefense capital goods, though edging off in the past 2 months, are now about 8 per cent above their level in March. Moreover, the rate of formation of new business firms—another advance indicator of business capital investment—is moving up again.

Further improvement in the homebuilding industry is also a vital ingredient of a full-fledged economic recovery. The decline in market rates of interest that began in the summer of 1974 bolstered the flow of savings to mortgage-lending institutions last fall, and a substantial rise in mortgage loan commitments soon followed. Early this year the volume of sales of both new and old dwellings rose, and these sales are continuing to run well above their lows of last winter. With better market conditions, housing starts—especially of single-family dwellings—have been moving up again. The recovery in homebuilding,

however, has been weak. Prices of new and existing houses, to say nothing of other costs of homeownership, have risen so drastically that many American families cannot afford to buy a home. Builders, moreover, remain very cautious in view of the overbuilding and financial difficulties of recent years.

Mortgage lenders have also remained cautious, in part because of fears that the enormous financing requirements of the Federal Government would drive up market interest rates and thereby attenuate the flow of funds to thrift institutions. The Federal budgetary deficit during the third quarter was the largest on record. In just 3 months the volume of Treasury bills outstanding rose by \$14 billion. Since commercial banks reduced their purchase of government securities as loan demands strengthened, a substantial volume of Treasury bills had to be absorbed by the general public. Borrowings by the Treasury in the 2- to 3-year maturity range were also very heavy. A series of such note issues in August and September drove up interest rates, attracted a sizable number of individual investors, and served to reduce the flow of savings to banks and thrift institutions.

These developments left their mark on the residential mortgage market. Lenders became more hesitant to commit funds, and interest rates on new mortgage loan commitments drifted upward. Nevertheless, mortgage rates remain below their 1974 peaks, and funds remain readily available in nearly all areas of the country where unrealistic interest rate ceilings do not impede the flow of credit.

Increases of interest rates have been particularly prominent in the market for State and local government securities. The financial problems of New York City have had widespread repercussions on the cost and availability of credit to State and local governments. Although yields on high-grade municipal obligations have risen about in line with yields in other long-term markets, increased investor caution has resulted in a marked widening of yield differentials between municipal issues of high quality and those of lower quality. Authorities with relatively low credit ratings have experienced marked increases in borrowing costs, and, in some cases, they have been effectively excluded from the public market. Despite these adversities the municipal bond market continued to work well enough to permit a record volume of long-term issues during the third quarter. But in the past few weeks the volume of new municipal issues has dropped appreciably.

Of late, the need of business firms to borrow in the long-term capital market has diminished as their liquidity generally improved, and as the downward adjustment of business inventories and better profits generated an enlarged flow of cash. During much of this year, however, the market for long-term funds has been under pressure—first, from corporate security issues, later from heavy Treasury borrowing and an extraordinary volume of new municipal securities. The Federal Reserve has sought to provide some assistance to the long-term market by shifting the emphasis in its open market operations from Treasury bills to longer-term securities. Since the beginning of the year, the System has acquired more than \$6 billion of Treasury and agency issues bearing maturities of more than 1 year. Of this total, \$2 billion was acquired since midyear.

These purchases have been helpful in steadying the bond market during periods of unusual tension, but they can have only an ephemeral influence on long-term interest rates. The fundamental factor forcing up long-term interest rates in recent years has been the high rate of inflation that persistent deficits in the Federal budget kept fueling. Appreciably lower long-term interest rates would, I believe, contribute powerfully to economic expansion, but they are unlikely to be attained unless significant progress is made in closing the budgetary deficit and in bringing inflation under control.

Exercise of fiscal discipline at all governmental levels is badly needed to ease the tensions and uncertainties that have disturbed financial markets this year. The pressure of Federal financing on interest rates during the third quarter resulted not only from the sheer massiveness of the Federal deficit but also from successive upward revisions in borrowing needs. The sharply higher yields in the market for municipal securities have reflected the heavy borrowings by State and local governments, as well as reduced confidence in the finances of some of these governmental units. The climate for economic expansion would be greatly improved by clear evidence that governmental authorities at all levels are finally willing to live within their means and to get along without financial gimmickry.

We in the Federal Reserve fully recognize that monetary policy has an important role to play in maintaining a financial environment that is favorable to sustained economic expansion. The strength of the economic recovery to date has been heartening, but we are still a

long way from reasonably full employment of our labor and capital resources. The reduction in the rate of inflation accomplished this year has also been encouraging, but we are still a long way from re-establishing reasonable stability in the price level. In light of these facts, the only responsible option open to the Federal Reserve is to pursue a course of moderation in monetary policy—a course that will provide expansion in supplies of money and credit adequate to facilitate further good recovery of production and employment, but not so large as to rekindle the fires of inflation.

To implement this course of policy, the Federal Open Market Committee has projected growth ranges of the monetary aggregates that differ little from those announced previously. For M_1 , which includes currency and demand deposits, the projected growth range for the coming year is again 5 to 7½ per cent. For M_2 , which includes consumer-type time and savings deposits at commercial banks besides the components of M_1 , the growth range has been widened by reducing the lower end of the range 1 percentage point. The growth range for M_3 , which includes deposits at thrift institutions besides the components of M_2 , has been similarly widened. These adjustments were made in view of recent experience, which suggests that pressures on market interest rates stemming from heavy Treasury borrowing tend to moderate inflows of savings funds to depository institutions. The growth range projected is thus 7½ to 10½ per cent for M_2 and 9 to 12 per cent for M_3 .

These growth ranges now apply to the period extending from the third quarter of 1975 to the third quarter of 1976—rather than from the second quarter of 1975 to the second quarter of 1976. This updating of the base, I should note, implies a slightly higher level of money balances a year from now than would be the case if the second-quarter base were retained.

Since I last reported to this committee on May 1, growth of the monetary aggregates has been broadly in line with the ranges we adopted earlier. However, month-to-month and quarter-to-quarter changes in the aggregates have been very large, reflecting unusual factors influencing the public's demand for money.

The largest short-term variation occurred in M_1 , the narrowly defined money stock. Thus, M_1 grew at an exceptionally high annual rate—11.2 per cent—during the second quarter, as the public's hold-

ings of cash bulged during May and June because of the tax rebates and special social security payments authorized by the Congress. As these excess balances were subsequently drawn down, growth of M_1 slowed to a 2.2 per cent annual rate from July through September. There were similar, though smaller, variations in the growth rates of M_2 and M_3 .

Measured on the basis of quarterly averages, the pattern of monetary expansion was much more stable. M_1 increased at an annual rate of 8.6 per cent between the first and second quarters, and 6.9 per cent between the second and third quarters. The comparable figures were 11.2 and 10.4 per cent for M_2 and 13.8 and 13.1 per cent for M_3 .

Short-run fluctuations in the rate of monetary growth are practically unavoidable, but they also have little significance for the functioning of the real economy. That is why we use quarterly average levels of money balances as the base for specifying longer-run objectives for monetary expansion. However, we cannot ignore the short-term movements of money balances in the conduct of monetary policy because it is necessary to be alert to any large and protracted departure of monetary growth rates from longer-run objectives.

Around the middle of this year the major monetary aggregates were increasing at rates far above the longer-run ranges that the Federal Reserve was seeking. We therefore set forces in motion that helped to return the pace of monetary expansion to the moderate rate desired. More recently, increases in the monetary aggregates have fallen below our projected ranges. Once again, steps have been taken—including a modest reduction in reserve requirements—to encourage a return to the desired path of long-run monetary expansion.

These corrective actions have had some influence on the level of interest rates—particularly short-term rates—which rose conspicuously in late June and early July, but have recently retreated on a broad front. Temporary fluctuations such as these in short-term market interest rates are an inevitable byproduct of efforts to keep the rate of monetary expansion from straying too far from the desired longer-run path. It is important to recognize that the Federal Reserve's conduct of monetary policy conforms in this respect not only to our best judgment but also to the spirit of House Concurrent Resolution 133.

The longer-range growth rates of the monetary aggregates we are now seeking are, we believe, adequate to finance a vigorous further expansion in real economic activity. Let me stress once again, however, that the relation over time between money balances and the physical volume of economic activity is rather loose because so much depends on the willingness of businessmen and consumers to use their existing money holdings. We know from earlier history that the turnover of the narrowly defined money stock tends to rise faster in the recovery stage of the business cycle than does the monetary stock itself. Recent experience has confirmed this tendency. Thus, between the second and third quarters of this year, M_1 rose—as I noted earlier—at a 6.9 per cent annual rate. But the income velocity of M_1 —that is, the ratio of gross national product to M_1 —rose during that period at an annual rate of 8.7 per cent.

In deciding on the appropriate target ranges for growth of the monetary aggregates, we at the Federal Reserve must carefully consider the probable movements of income velocity over the course of the business cycle. We must also bear in mind that innovations in financial markets can have large effects on the economy's needs for money and other assets to finance economic expansion and to satisfy the public's liquidity preferences.

We are living in a time of rapid changes in the public's demand for currency, for checking accounts, for savings deposits, and for a host of other liquid assets. Over the past 20 or 30 years, dramatic developments in financial technology have reduced substantially the proportion of spendable funds that is held in the form of currency and demand deposits. More and more corporate treasurers have learned how to get along with a minimum of deposits in their checking accounts. Consumers, too, have learned to keep a larger part of their transactions and precautionary balances in the form of savings deposits at commercial banks, or deposits in savings and loan associations, or certificates of deposit, or Treasury bills, or shares of money market funds, or other income-earning liquid instruments. Of late, telephonic transfer of funds from savings accounts to checking accounts is accelerating the trend toward holding transactions balances in income-earning form.

Furthermore, as a result of recent financial innovations, liquid assets other than currency or checking deposits are being used to an increas-

ing extent directly for transactions purposes. Since 1970 customers of mutual savings banks and savings and loan associations have been able to authorize payment of regularly scheduled household expenditures, such as mortgage payments, directly from their savings accounts. This year authority for such third-party transfers was broadened to include any payment, regardless of purpose, and permission was granted to commercial banks to offer similar services to their customers. And since 1974 commercial banks and thrift institutions in Massachusetts and New Hampshire have been allowed to offer negotiable order of withdrawal (so-called "NOW") accounts to their customers. These accounts pay a rate of interest that practically equals the rate on regular savings accounts, and yet they permit direct transfer of funds through a negotiable instrument comparable to a check.

These changes are having a significant impact on the type of financial assets that the public holds to meet its transactions needs and on the range of financial institutions that are involved in supplying payments services. Savings and loan associations and mutual savings banks, as well as nonmember commercial banks, are now an important part of the Nation's payments mechanism. And yet they are not subject to the reserve requirements imposed by the Federal Reserve on member banks. As a consequence, the scope of monetary control exerted by the Federal Reserve is being eroded.

The financial innovations that I have described so summarily are also increasing the difficulties of determining the growth rates of the monetary aggregates that are appropriate at any given time. Clearly, the Federal Reserve cannot focus attention exclusively on any single measure of money balances. We must be alert to the possibility that our longer-run projected ranges for the monetary aggregates may need to be altered in view of changes in financial technology, as well as more basic economic and financial developments.

Let me remind this committee, finally, that the growth rates of money and credit presently desired by the Federal Reserve cannot be maintained indefinitely without running a serious risk of releasing new inflationary pressures. As the economy returns to higher rates of resource utilization, it will eventually be necessary to reduce the rate of monetary and credit expansion. The Federal Reserve does not believe the time for such a step has yet arrived. But in view of the

economic recovery that has been under way since last spring, we are closer to that day now than we were 6 months ago.

Our Nation is confronted today with a serious difficulty in its search for ways to restore full employment. Highly expansionist monetary and fiscal policies might, for a short time, provide some additional thrust to economic activity. But later on the rate of inflation would accelerate sharply—a development that would create even more difficult economic problems than we have yet encountered. This committee's report on monetary policy, issued in June, recognized this basic truth in stating that "if inflation is rekindled, any recovery will be short-lived and will end in another recession, one almost certain to be more virulent than the present one."

Conventional thinking about stabilization policies, as I tried to explain in a recent address at the University of Georgia, is inadequate and out of date. Stimulative financial policies have considerable merit when unemployment is extensive and the price level is stable or declining. But such policies do not work well when the price level keeps on rising while there is considerable slack in the economy. Experience both in our own and other industrial countries suggests that once inflation has come to dominate the thinking of a Nation's businessmen and consumers, highly expansionist monetary and fiscal policies do not have their intended effect. That is, instead of fostering larger consumer spending and business investment, they may well lead to larger precautionary savings and sluggish consumer buying.

The only sound fiscal and monetary policy today is a policy of prudence and moderation. New ways must be found to bring unemployment down without becoming engulfed in a new wave of inflation. That is why structural policies require far more attention than they are being accorded by academic economists or members of the Congress.

H. CON. RES. 133, 94TH CONGRESS, 1ST SESSION (PASSED MARCH 24, 1975)

Whereas article I, section 8, of the Constitution provides that Congress shall have the money power, namely "to coin money and regulate the value thereof";

Whereas Congress established the Federal Reserve Board as its agent, and delegated to its agent the day-to-day responsibility for managing the money supply;

Whereas the United States economy is now suffering from excessively high unemployment and a decline in production and the gross national product, together with inflation; and

Whereas the economy's performance in part is affected by changes in the rate of growth of the monetary and credit aggregates: Now, therefore, be it

Resolved by the House of Representatives (the Senate concurring), That it is the sense of Congress that the Board of Governors of the Federal Reserve System and the Federal Open Market Committee—

(1) pursue policies in the first half of 1975 so as to encourage lower long term interest rates and expansion in the monetary and credit aggregates appropriate to facilitating prompt economic recovery; and

(2) maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long term interest rates.

Pursuant to this resolution, and taking into account the international flows of funds and conditions in the international money and credit markets, the Board of Governors shall consult with Congress at semi-annual hearings before the Committee on Banking, Housing and Urban Affairs of the Senate and the Committee on Banking, Currency and Housing of the House of Representatives about the Board of Governors' and the Federal Open Market Committee's objectives and plans with respect to the ranges of growth or diminution of monetary and credit aggregates in the upcoming twelve months. Nothing in this resolution shall be interpreted to require that such ranges of growth or diminution be achieved if the Board of Governors and the Federal Open Market Committee determine that they cannot or should not be achieved because of changing conditions. The Board of Governors shall report to the Congress the reasons for any such determination during the next hearings held pursuant to this resolution.

Part 2

Records , Operations , and Organization

Record of Policy Actions of the Board of Governors

JANUARY 20, 1975

Amendment to Regulation D (Reserves of Member Banks)

Effective January 30, 1975, the Board amended Regulation D to reduce the reserve requirements on demand deposits at member commercial banks, the effect of which would be to release approximately \$1.1 billion in reserves to the banking system.

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

The Board took this action to permit a further gradual improvement in bank liquidity and to facilitate moderate growth in the monetary aggregates.

The amendment provided for a reduction in reserve requirements of $\frac{1}{2}$ of a percentage point on each portion of demand deposit holdings of \$400 million or less and a reduction of 1 percentage point on such holdings in excess of \$400 million. The new reserve ratios were applicable to net demand deposits beginning the week of January 30–February 5, and affected the required reserves beginning the statement week of February 13–19.

The old and new reserve requirements are shown below:

Net demand deposits (in millions of dollars)	Reserve requirement (per cent)	
	New	Old
2 or less	7½	8
2–10	10	10½
10–100	12	12½
100–400	13	13½
Over 400	16½	17½

FEBRUARY 18, 1975

Amendments to Rules Regarding Availability of Information

Effective February 19, 1975, the Board amended its Rules Regarding Availability of Information in accordance with the 1974 Amendments to the Freedom of Information Act, which took effect on the same day.

Votes for this action: Messrs. Burns, Mitchell,
Sheehan, Bucher, Holland, Wallich, and Coldwell.

Votes against this action: None.

The amendments adopted will:

1. Inform the public of the availability of copies of the index of Board actions compiled pursuant to the Freedom of Information Act.
2. Provide specific time limits for making determinations as to the availability of requested information.
3. Provide for identification of the official(s) responsible for any initial or final denial of a request for information.
4. Revise slightly the Board's rules regarding exemptions from the Freedom of Information Act.
5. Establish a fee schedule reflecting the direct costs of the searching and copying of records in response to a request. Under this schedule, there will be a charge of \$10 per hour for search time and a charge of 10 cents per standard page for photocopying. When data processing services are required, the assessment will be limited to the direct and reasonable costs of retrieval and production of the information requested; detailed schedules of such fees are available from the Secretary of the Board. The assessment may be waived when the total charge is less than \$2, and it may be reduced or waived when the general public will derive the primary benefit from the information.

MARCH 31, 1975

Interpretation of Regulation Q (Interest on Deposits)

Effective April 7, 1975, the Board issued an interpretation of Regulation Q to authorize member banks to permit customers to transfer or withdraw funds from their savings accounts by telephonic request.

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

In 1936 the Board had adopted the policy that a member bank could not permit a depositor to withdraw or transfer funds from his savings account by telephone. That position was based upon the Board's concern that telephonic access to accounts could lead to unauthorized use and that unrestricted telephonic access to savings accounts might lead depositors to treat such accounts as extensions of their checking accounts, thereby destroying the distinction between the two types of accounts.

However, upon review of the telephonic transfer and withdrawal systems now being developed by several member banks, the Board found that the security and record-keeping devices made possible by new technology and incorporated into these systems would keep errors and unauthorized use to a minimum. In addition, the Board recognized that the telephone has become an accepted medium for transmitting financial data, and that the telephone merely provides the customer with an additional method of communicating instructions regarding his account to his bank.

For additional information on this interpretation, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

MARCH 31, 1975

Amendment to Regulation Q (Interest on Deposits)

Effective May 16, 1975, the Board amended Regulation Q to prohibit member banks from issuing negotiable order of withdrawal (NOW) accounts to governmental units.

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

On November 26, 1974, the Board had amended Regulation Q to permit member banks to offer savings accounts to governmental units. Since NOW accounts are included in the regulation's definition

of savings deposits, the amendment also authorized NOW accounts for governmental units in Massachusetts and New Hampshire (the only two States authorized to offer NOW accounts).

After a review of the situation, the Board decided to withdraw its authorization of governmental NOW accounts in light of the disruptive economic effects that such accounts could have on the deposit relationships between financial institutions and governmental units in the two States. However, certain types of governmental units—ones that had, because of the nature of their activities, traditionally been allowed to hold savings deposits (school districts, for example)—were allowed to continue to hold NOW accounts.

The amendment permitted all NOW accounts established prior to May 16, 1975, to be maintained through December 31, 1975.

APRIL 9, 1975

Amendments to Regulation D (Reserves of Member Banks) and Regulation M (Foreign Activities of National Banks)

Effective May 22, 1975, the Board amended Regulations D and M to reduce from 8 per cent to 4 per cent the reserve requirement on member banks' Euro-dollar borrowings and on loans made by member banks' foreign branches to U.S. residents.

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

This action was taken to align the Euro-dollar reserve requirement more closely with reserve requirements on the time and savings deposits of domestic residents. The action also would reduce impediments to inflows of funds from abroad and thereby encourage a strengthening of the position of the U.S. dollar in foreign exchange markets.

The reduced reserve ratio was applicable to the daily-average balance of borrowings beginning with the 4-week period April 10 through May 7. The ratio affected reserves required to be maintained beginning the 4-week period May 22 through June 18. The action was expected to release about \$65 million in reserves.

Also affected by the action were foreign banking institutions operating in the United States that had voluntarily maintained reserves on Euro-dollar borrowings since mid-1973. The Board had originally requested the voluntary action during a period of monetary restraint. Although current monetary policy was not directed toward credit restraint, the Board believed it was important that foreign banking institutions operating in the United States follow procedures similar to those followed by member banks with respect to reserves on increases in their Euro-dollar borrowings. Therefore it requested, Governor Bucher dissenting, that foreign institutions maintain a voluntary reserve of 4 per cent on increases in net foreign borrowings exceeding the average of such borrowings during May 1973. The reduction in the voluntary reserve was expected to release about \$15 million in reserves.

Governor Bucher would have preferred to withdraw the request at this time. He noted that the original request had been made in an environment of credit restraint, while the new request was based solely on the principle of parallel treatment. He did not believe the Board should invoke the principle at a time when the Board's proposed Foreign Banking Act of 1975—a bill predicated on that same principle—was pending before the Congress.

The Board had instituted its reserve requirement on member banks' Euro-dollar borrowings and on loans made by member banks' foreign branches to U. S. residents in 1969, with the rate set at 10 per cent of borrowings in excess of base-period amounts. In November 1970 the Board increased the rate to 20 per cent. In May 1973 the Board reduced it to 8 per cent and voted for a gradual elimination of the reserve-free base; phasing out of the reserve-free base was completed in March 1974.

APRIL 30, 1975

Margin regulations

The Board extended until September 30, 1975, the suspension of the rule that limits the use of the same-day substitution privilege to margin accounts with an equity ratio of at least 40 per cent of the market value of the securities. The suspension had previously been scheduled to expire on May 5, 1975.

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

This extension was adopted to allow the Board further time for consideration and consultation with interested parties on the impact of the rule on margin customers, on brokerage firms, and on the stock market itself.

Under the same-day substitution privilege of the Board's margin regulations, margin customers are permitted to substitute one security for another in their accounts without supplying additional margin for the purchase or without using any of the proceeds of the sales to strengthen an account that is below the initial margin requirement (currently 50 per cent), provided that the sales and purchases occur on the same day and are of equal dollar value. In a regulatory amendment effective September 18, 1972, the Board had limited that privilege to accounts in which a customer's equity ratio was at least 40 per cent. On November 4, 1974, the Board suspended the restriction for 6 months (from November 5, 1974, to May 5, 1975).

The Board's margin regulations apply to extensions of credit by brokers and dealers (Regulation T) and by banks and other lenders (Regulations U and G, respectively) for the purpose of purchasing or carrying stocks registered on a national exchange or included on the Board's list of over-the-counter margin stocks.

MAY 12 AND DECEMBER 30, 1975

Amendments to Regulation H (Membership of State Banking Institutions in the Federal Reserve System)

On May 12 the Board amended Regulation H, effective immediately, to bring it into conformity with the provisions of the Flood Disaster Protection Act of 1973.

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

The Flood Disaster Protection Act of 1973 provided that as of

July 1, 1975, no State member bank nor any other Federally chartered, supervised, or insured lending institution may make, increase, extend, or renew a loan secured by improved real estate or a mobile home located in a flood-hazard area that has been so identified by the Secretary of Housing and Urban Development unless the community is participating in the national flood insurance program. However, the Act provided that a community would be exempt from this prohibition for 1 year following the date on which it was notified by the Secretary that it had flood-prone areas.

The Board's amendment inserted the 1-year grace period in the Board's regulation.

On December 30 the Board amended Regulation H, effective immediately, to implement the section of the Emergency Housing Act of 1975 that amended the Flood Disaster Protection Act of 1973.

Votes for this action: Messrs. Mitchell, Bucher, Holland, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Burns, Wallich, and Coldwell.

The law and the Board's amendment created a partial exception to the requirements of the Flood Disaster Protection Act for one category of loans: those to finance the acquisition of a previously occupied residential dwelling. State member banks may make such loans until January 1, 1976 (rather than July 1, 1975), or for 1 year from the date of a community's notification that it has flood-prone areas (whichever is later) if the community is not participating in the national flood insurance program.

MAY 29, 1975

Amendment to Regulation Q (Interest on Deposits)

Effective June 5, 1975, the Board amended Regulation Q to permit member banks to redeem time deposits before maturity without imposing an interest penalty in cases in which the depositor or a co-depositor has died.

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

Previously, Regulation Q permitted payment of a time deposit before maturity only with a substantial interest penalty: interest on the withdrawn funds would be paid at the rate paid on passbook savings accounts, and the depositor would forfeit 3 months' interest. The purpose of the penalty was to prevent time deposits from being used as transaction accounts. Since the amendment adopted would apply only in the case of the death of a depositor, the Board foresaw no resulting erosion of the distinction between time deposits and transaction accounts.

On April 4, 1975, the Board had published for comment a proposal to allow member banks to redeem a time deposit prior to maturity without a penalty only when the deceased depositor was the sole legal and beneficial owner of the account. However, after consideration of all comments received, the Board voted to expand the amendment to allow such penalty-free redemption upon the death of any person whose name appears on a time-deposit passbook or certificate.

Governor Holland dissented from this action because he did not believe that an exception should be made to the present penalty rule, particularly one that appeared to be a reversion to the Board's earlier hardship provision governing early withdrawals.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

MAY 29, 1975

Amendment to Regulation Q (Interest on Deposits)

Effective September 1, 1975, the Board amended Regulation Q to require member banks, upon issuing a time deposit, to make certain disclosures on the certificate, passbook, or other document representing the deposit.

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

The amended regulation requires member banks to print or stamp on each certificate, passbook, or other document representing a time deposit a conspicuous statement indicating that no interest will be

paid on the deposit after the maturity date. In the case of a time deposit that is automatically renewable, the amendment requires a conspicuous statement indicating that the contract will be renewed automatically unless the owner gives the bank other instructions, and indicating the terms of the renewal.

The Board took this action to provide greater convenience to customers who have time deposits.

At the same time, the Board urged member banks to notify their customers by mail of the impending maturity of any time deposit, particularly if the deposit has an initial maturity of more than 1 year.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

JULY 1, 1975

Amendment to Regulation Q (Interest on Deposits)

Effective September 2, 1975, the Board amended Regulation Q to authorize member banks to offer a bill-paying service to their customers through the preauthorized transfer of funds from a depositor's savings account.

Votes for this action: Messrs. Mitchell, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Mr. Burns.¹

Previously, member banks were authorized to offer a bill-paying service only for the payment of the principal, interest, or other charges related to a real estate loan or mortgage. This amendment permits member banks to provide a comprehensive bill-paying service without regard to the purpose of the payment.

The amendment gives member banks wide latitude in designing bill-payment plans. Subject to the rules of the individual bank plan, a savings depositor may authorize his bank to transfer funds to third parties on a recurring or a one-time basis (regardless of whether the payment is in satisfaction of a debt) or to the bank itself to repay an indebtedness to it (except an indebtedness incurred through an overdraft or the use of a checking-account line of credit). The bank

¹ There was one vacancy on the Board at the time this action was taken.

may allow the depositor to give instructions in person, by mail, or by telephone. (Any printed forms used must state in boldface type that the instructions are not negotiable or transferable). The bank may effect the transfer of funds by an internal bookkeeping transfer or by sending payment to the transferee or the transferee's bank.

Member banks may honor only those withdrawal orders or authorizations for payment to third parties that are received from the depositor himself.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

JULY 8, 1975

Amendments to Regulation Z (Truth in Lending)

Effective August 8, 1975, the Board amended Regulation Z to implement changes in the Truth in Lending Act adopted by the Congress.

Votes for this action: Messrs. Mitchell, Bucher, Holland, and Coldwell. Votes against this action: None. Absent and not voting: Messrs. Burns and Wallich.¹

The amendments provide that:

1. Advertisements concerning extensions of credit repayable in more than four instalments, and for which no finance charge is identified, shall state that the cost of credit is included in the price of the goods or services.
2. Credit transactions primarily for agricultural purposes shall be exempt from the disclosure provisions of Regulation Z and the Truth in Lending Act when the amount financed exceeds \$25,000.
3. Any unexpired right of rescission in residential real property transactions shall be limited to 3 years from the date of the consummation of the transaction, or until the customer transfers all his interest in the property, whichever occurs earlier.
4. Issuers of credit cards, on the one hand, and businesses or organizations, on the other hand, may contract without regard to

¹ There was one vacancy on the Board at the time this action was taken.

the other relevant provisions of Regulation Z concerning the liability for unauthorized use of credit cards when (a) the card issuer issues 10 or more cards to a single business or organization for use by its employees, and (b) the liability imposed on such employees for unauthorized use does not exceed \$50 (the amount permitted by Regulation Z).

5. Any credit transaction involving an agency of a State as creditor shall not be subject to the right of rescission.

6. The creditor of an open-end account may allow a longer period than that disclosed to the customer in which to make payment in full without incurring finance charges.

7. The Interstate Commerce Commission be removed from the list of enforcing agencies and the Farm Credit Administration be added.

8. Certain civil and criminal penalties be revised. Specifically, the amendments provide for (a) criminal liability for certain fraudulent acts related to credit cards; (b) civil liability in individual or class-action cases; (c) a defense for creditors complying in good faith with Regulation Z; (d) single recovery for multiple failures to disclose in a single account; and (e) civil liability of assignees for violations of disclosure requirements when the violation is apparent on the face of the instrument assigned.

For additional information on these amendments, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

AUGUST 25, 1975

Amendments to Regulation M (Foreign Activities of National Banks)

Effective immediately, the Board approved amendments to the section of Regulation M that allows member banks' foreign branches to perform certain functions to the extent that such functions are customary for the banking business in the places in which the branches transact business. The amendments adopted (1) raise the limit on the amount of credit that a member bank's foreign branch may extend to one of its executive officers to finance the acquisition or construction of housing to be used as his living quarters abroad, and (2) allow foreign branches of member banks to engage in insurance agency or brokerage activities.

Votes for this action: Messrs. Burns, Mitchell, Bucher, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Holland, Wallich, and Coldwell.

As published for comment earlier in the year, the proposed amendment regarding loans to executive officers for housing would have increased the limit from \$50,000 to \$100,000 (with no provision for exceptions) in light of the worldwide escalation in housing costs. Comments received pointed out that \$100,000 would not be adequate in some countries. Accordingly, although the amendment adopted imposes a limit of \$100,000, it allows this amount to be exceeded when required by local housing costs, provided that the bank's board of directors grants prior specific approval.

In voting to allow member banks' foreign branches to engage in insurance agency or brokerage activities where such activities are customary for banks, the Board noted that this amendment would allow such branches to be more competitive with local banks. Since the proposal would not involve any insurance underwriting by the foreign branches, there would be no significant additional risk.

SEPTEMBER 10, 1975

Amendment to Regulation Z (Truth in Lending)

Effective October 28, 1975, the Board amended Regulation Z to implement Title III (Fair Credit Billing) and one section of Title IV of Public Law 93-495.

Votes for this action: Messrs. Burns, Mitchell, Bucher, Holland, Wallich, Coldwell, and Jackson.

Votes against this action: None.

The Fair Credit Billing Act was designed to help consumers resolve credit-billing disputes promptly and fairly and to prohibit certain credit practices deemed to be unfair to consumers or to be anticompetitive. The Act directed that the implementing regulations be written by the Board of Governors and enforced by the same Federal agencies that enforce the other chapters of the Truth in Lending Act.

The main provisions of the Board's amendment are as follows:

1. Establishment of a procedure to be followed by creditors and customers for the resolution of suspected billing errors, and a requirement that creditors notify customers of the procedure.

2. A requirement, for open-end credit accounts, that when there is a period during which payment may be made without incurring a finance charge, the periodic statement must be mailed at least 14 days before the end of such "free-ride" period.

3. Establishment of specific time limits that creditors must meet in (a) crediting payments received on accounts and (b) crediting or refunding excess payments.

4. If a merchant accepts the return of property or otherwise for-gives a debt, and the amount is to be credited to the customer's credit-card account, a requirement that the merchant notify the card issuer within seven business days, and that the card issuer credit the cardholder's account within three business days.

5. A prohibition against a card issuer offsetting a customer's credit-card bill by transferring funds from another account main-tained by the cardholder with the card issuer unless the cardholder has previously authorized in writing the automatic deduction for payment of such bills, or unless a court order is obtained.

6. Establishment of a customer's right—in the event that he has problems with property or services purchased with a credit card and has given the merchant a chance to correct the problem—to assert against the *card issuer* any claims (other than tort claims) or legal defenses to payment that he may have against the *merchant*, provided that the purchase was made within the customer's home State or within 100 miles of his home address and that the purchase price was more than \$50. (The distance and price limitations do not apply if the merchant is owned or operated by the creditor or if the creditor mailed the customer the advertising for the property or services.)

7. A stipulation that card issuers may not prohibit merchants from offering their customers a discount for using cash rather than a credit card. (If the discount is 5 per cent or less and if certain other con-ditions are met, the discount does not constitute a finance charge; but a surcharge of any amount must be treated as a finance charge to be disclosed to the cardholder. The Board has, however, requested clarification of congressional intent on this distinction.)

8. Preemption, with certain exceptions, of any State billing law

if the error-resolution procedure and credit-reporting prohibitions of that law differ from those of the amendment. As an exception, State law is not preempted to the extent that a customer is permitted a longer time period in which to report billing errors than he would have under the Federal law. However, on subjects other than billing-error resolution and credit reporting, State law is not inconsistent, and therefore not preempted, if the creditor can comply with it without violating Federal law. The amendment also establishes a procedure by which a State may ask the Board to determine whether its law gives greater protection to consumers than does the Federal law, or is otherwise not inconsistent.

9. A requirement that certain descriptive information be included for each transaction listed on a periodic statement in an open-end account to enable the customer to identify the transaction. (This is pursuant to Section 411 of Title IV of Public Law 93-495.)

Although voting for adoption of the amendment, individual Board members dissented on particular issues, as follows:

Governors Bucher, Wallich, and Jackson dissented from the decision to treat surcharges, but not discounts, as finance charges; they believed the two devices should receive similar treatment under the regulation since their effects were the same in economic terms. (The majority of the Board observed that the relevant provision of the Fair Credit Billing Act referred only to discounts.)

Governors Mitchell and Coldwell dissented from the approach to be taken toward inconsistent State laws—specifically, the decision to allow State law to prevail under some circumstances and Federal law to be preemptive in others in order to provide maximum protection for the consumer. They dissented because of the confusion that might result; in addition, Governor Mitchell believed that consumers would be given greater protection under Federal law, which provided for stronger penalties for violations thereof than did State laws.

To avoid errors and confusion, the Board gave creditors additional time (beyond the October 28, 1975, effective date) to achieve compliance with certain provisions requiring significant changes in forms or computer programs.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

SEPTEMBER 10, 1975

Amendment to Regulation Z (Truth in Lending)

Effective January 1, 1976, the Board amended Regulation Z to require creditors to disclose in a clear and conspicuous manner the credit terms that apply to the use of cash-advance checks, at the time such checks are initially sent to a customer.

Votes for this action: Messrs. Mitchell, Bucher, Holland, Wallich, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Mr. Burns.

The Board took this action to insure that recipients of cash-advance checks are informed about the credit terms applicable to their use. Cash-advance checks are blank checks sometimes issued to holders of credit-card accounts for use in obtaining cash advances, and their terms often vary from those pertaining to credit-card purchases. The Board noted that issuance and use of such checks in connection with credit-card accounts have been growing.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

SEPTEMBER 15, 1975

Amendments to margin regulations

The Board extended through November 2, 1975, the suspension of the rule that limits the use of the same-day substitution privilege to margin accounts with an equity ratio of at least 40 per cent of the market value of the securities. At the same time, it voted to reinstate the restriction as of November 3, 1975, but set the equity ratio requirement at 30 per cent, rather than 40 per cent, of the market value of the securities.

Votes for this action: Messrs. Burns, Mitchell, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None. Absent and not voting: Mr. Jackson.

Under the same-day substitution privilege of the Board's margin regulations, margin customers are permitted to substitute one security for another in their accounts without supplying additional margin for the purchase or without using any of the proceeds of the sales to

strengthen an account that is below the initial margin requirement (currently 50 per cent), provided that the sales and purchases occur on the same day and are of equal dollar value. In a regulatory amendment effective September 18, 1972, the Board had limited this substitution privilege to accounts in which a customer's equity ratio was at least 40 per cent. On November 4, 1974, the Board suspended the restriction for 6 months (from November 5, 1974, to May 5, 1975), and on April 30, 1975, it extended the suspension until September 30, 1975. The purpose of the suspension was to permit the Board to study the impact of the limitation on margin customers, brokerage firms, and the stock market.

The Board now voted to reinstate the restriction (but with a cutoff equity ratio of 30 per cent, rather than 40 per cent, of the market value of the securities) in light of its conclusion that the benefits of the limitation—principally the upgrading of margin accounts—outweighed any potential adverse effects. It also noted that its study had found no significant increase in net selling as a result of the limitation. The Board set the effective date of the reinstatement at November 3, 1975, and extended the suspension until that date in order to allow brokerage firms time to make the necessary operating changes.

The Board's margin regulations apply to extensions of credit by brokers and dealers (Regulation T) and by banks and other lenders (Regulations U and G, respectively) for the purpose of purchasing or carrying stocks registered on a national exchange or included on the Board's list of over-the-counter margin stocks.

SEPTEMBER 26, 1975

Rules Regarding Access to and Review of Personal Information in Systems of Records

Effective September 28, 1975, the Board adopted a new regulation entitled "Rules Regarding Access to and Review of Personal Information in Systems of Records," which sets forth the procedures by which an individual may obtain access to, and request amendment of, Federal Reserve Board records pertaining to himself.

Votes for this action: Messrs. Burns, Mitchell, Holland, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Bucher and Wallich.

This action was taken to implement a portion of the Privacy Act of 1974.

The new regulation specifies the procedures by which an individual may (1) request notification of the existence of a record on him or her in the Board's designated files; (2) obtain access to the record; (3) request amendment of any record that is believed to be in error; and (4) appeal an initial adverse determination made on a request to amend a record.

The regulation also indicates restrictions on the disclosure of information to persons other than the individual to whom it pertains, and allows certain portions of records to be exempted from disclosure requirements.

OCTOBER 1, 1975

**Amendments to Regulation D (Reserves of Member Banks)
and Regulation Q (Interest on Deposits)**

Effective November 10, 1975, the Board amended Regulations D and Q to permit member banks to offer savings accounts to corporations, partnerships, and other organizations operated for profit.

Votes for this action: Messrs. Burns, Mitchell,
Bucher, Holland, Coldwell, and Jackson. Votes
against this action: None. Absent and not voting:
Mr. Wallich.

The Board took this action to enable member banks to offer small businesses an opportunity to earn interest on idle funds and to enable the banks to compete more effectively with savings and loan associations and other thrift institutions, most of which had previously been authorized by their supervisory agencies to offer such accounts.

The amendments set a ceiling of \$150,000 per depositor on the amount that a profitmaking organization may maintain in a savings account at a member bank. The Board adopted this ceiling (1) in order to make such accounts attractive primarily to small businesses, which do not ordinarily have access to short-term money market instruments, and (2) to limit the concentration of any potentially volatile savings deposits. Governors Bucher and Coldwell dissented from the decision to place a limit on such accounts; Governor Bucher did not believe there was a need for such a restriction, and both

Governors believed the limitation would present undue administrative problems.

The proposal that had been published for comment earlier in the year would have imposed a limit of \$100,000 per depositor at a member bank. After review and consideration of all comments received, the Board voted to adopt a ceiling of \$150,000 in order to accommodate the needs of small businesses more adequately.

For additional information on these amendments, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

OCTOBER 15, 1975

Amendment to Regulation D (Reserves of Member Banks)

Effective October 16, 1975, the Board amended Regulation D to reduce from 3 per cent to 1 per cent the reserve requirement on member bank time deposits with an original maturity of 4 years or more.

Votes for this action: Messrs. Burns, Mitchell, Bucher, Holland, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Wallich and Coldwell.

This action was designed primarily to encourage banks to lengthen the structure of their liabilities. The Board noted that during recent years some banks had experienced difficulties because some of their fixed-rate loans had longer maturities than their relatively short-term interest-bearing liabilities. The need to roll over their maturing short-term obligations during periods of rising interest rates had subjected banks to liquidity strains and pressures on their profits.

The action was also intended to help meet the seasonal need for bank reserves during the remainder of the year and to facilitate a moderate growth in the monetary aggregates.

The amendment provided that in no case may the reserves on the aggregate amount of time and savings deposits at any bank be less than 3 per cent, the minimum level allowed by law. The new reserve ratio was applicable to the level of deposits beginning the week of October 16–22, and affected required reserves beginning the statement week of October 30–November 5. The reduction was expected to release approximately \$350 million in reserves to the banking system.

OCTOBER 15, 1975

Adoption of Regulation B (Equal Credit Opportunity)

Effective October 28, 1975, the Board adopted a new regulation, designated Regulation B, that prohibits discrimination by creditors on the basis of sex or marital status.

Votes for this action: Messrs. Burns, Bucher, Holland, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Mitchell, Wallich, and Coldwell.

The Board took this action to implement the Equal Credit Opportunity Act. That Act assigned to the Board of Governors of the Federal Reserve System the responsibility for writing an implementing regulation, and it delegated enforcement responsibility to 12 Federal agencies, one of which is the Board. Each of the agencies has authority over appropriate creditors.

The regulation applies to all who regularly extend or arrange for the extension of credit; included are banks, savings and loan associations, credit unions, finance companies, department stores, and credit-card issuers.

The regulation prohibits creditors from discriminating against an applicant on the basis of sex or marital status in any aspect of a credit transaction. Creditors may not, on the basis of sex or marital status, discourage potential applicants from applying for credit, discount the income of an applicant or an applicant's spouse, or refuse to grant a separate account to a creditworthy applicant. Furthermore, the regulation requires that upon request a creditor must give a rejected applicant the reasons for any denial of credit. In addition, the regulation gives every married person the right to have credit information concerning accounts held or used jointly with a spouse reported to consumer reporting bureaus and to creditors in the names of both spouses rather than in one name only.

Although the basic provisions of the regulation became effective on October 28, 1975, the Board allowed creditors additional time to achieve compliance with certain provisions that required significant changes in forms or computer programs.

Governor Jackson, while voting for adoption of the regulation, opposed the decision to require that upon request a creditor must

give a rejected applicant the reasons for the denial. Governor Jackson questioned the usefulness of the statement of reasons as an enforcement device, and he believed the requirement would be too burdensome to creditors because it would give all applicants, not just those who might have been discriminated against in violation of this regulation, the right to receive a statement.

For additional information on this regulation, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

OCTOBER 17 AND NOVEMBER 24, 1975

Amendments to Regulation H (Membership of State Banking Institutions in the Federal Reserve System) and Regulation Y (Bank Holding Companies)

On October 17, 1975, the Board amended Regulation H, effective immediately, to provide for the registration of State member banks and subsidiaries thereof that act as transfer agents.

Votes for this action: Messrs. Burns, Mitchell, Holland, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Bucher, Wallich, and Coldwell.

On November 24, 1975, the Board amended Regulation Y, effective immediately, to provide for the registration of bank holding companies and certain of their subsidiaries that act as transfer agents.

Votes for this action: Messrs. Burns, Holland, Wallich, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Mitchell and Bucher.

These actions were taken pursuant to the Securities Acts Amendments of 1975, which were enacted to assist in the development of a national system for prompt and accurate clearance and settlement of securities transactions.

The amendments provide that no State member bank or a subsidiary thereof, nor any bank holding company or a subsidiary thereof that is a bank as defined in Section 3(a)(6) of the Securities Exchange Act of 1934, as amended, may act as a transfer agent in

the clearing and settlement of certain securities transactions on or after December 1, 1975, unless it is registered with the Board. The Board also adopted a form to be used for the registration process.

The Federal Deposit Insurance Corporation, the Comptroller of the Currency, and the Securities and Exchange Commission have adopted similar rules and forms for institutions under their jurisdiction.

OCTOBER 20, 1975

Amendment to Regulation F (Securities of Member State Banks)

Effective December 1, 1975, the Board amended Regulation F to bring it into substantial conformity with comparable rules of the Securities and Exchange Commission.

Votes for this action: Messrs. Mitchell, Holland, Wallich, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Burns and Bucher.

This action was taken pursuant to the Depository Institutions Act of 1974, which required that Federal bank supervisory agencies amend their regulations regarding securities of banks under their respective jurisdictions to make those regulations substantially similar to the corresponding rules of the Securities and Exchange Commission.

Regulation F applies to State member banks that have at least 500 stockholders or that have securities listed on a national exchange. Such banks are required to register and file periodic reports with the Board, and to comply with the regulation's requirements in connection with the solicitation of proxies from shareholders. Officers, directors, and principal stockholders of such banks are required to file reports as to their stock ownership in the bank. In addition, no tender offer may be made for the stock of such banks unless certain information is concurrently filed with the Board. All reports filed under Regulation F are publicly available.

The Board's amended regulation includes the following new provisions:

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1. Market data on bank stocks must be included in annual reports.
 2. Upon request, a stockholder or investor must be furnished a copy of the bank's annual report filed with the Board.
 3. Certain financial data, in addition to that previously required, must be disclosed in the annual report to the stockholders.
 4. Banks must revise their procedures regarding stockholders' proposals, as specified in the amended regulation.
 5. Certain additional requirements must be followed with respect to tender offers for registered bank stock.
 6. Banks must use revised, expanded forms in making reports of "insider" ownership.

OCTOBER 24, 1975

Amendment to Regulation Z (Truth in Lending)

Effective January 31, 1976, the Board amended Regulation Z to require disclosure of closing costs in certain real property transactions not covered by the Real Estate Settlement Procedures Act (RESPA).

Votes for this action: Messrs. Mitchell, Bucher, Holland, Wallich, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Mr. Burns.

This action was taken to implement a section of Public Law 93-495 (enacted on October 28, 1974), which amended the Truth in Lending Act.

While the law required the Board to adopt an implementing regulation no later than October 28, 1975, the Board established an effective date of January 31, 1976, since the Senate had voted to repeal the relevant section of Public Law 93-495 and the question was under consideration in the House of Representatives.

The amendment requires that in real property consumer credit transactions in which the lender retains or acquires a collateral interest in the real property involved, the closing costs to be incurred by the customer must be disclosed. If the seller extends the credit, the disclosure must be made prior to any downpayment. If the credit is extended by a third party, the disclosure must be made at the time the lender makes a commitment in connection with the transaction. Transactions that are subject to RESPA or that are

exempt from the requirements of RESPA by regulations adopted by the Department of Housing and Urban Development are exempt from this amendment.

For additional information on this amendment, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

NOVEMBER 12, 1975

Amendment to Regulation T (Credit by Brokers and Dealers)

Effective November 13, 1975, the Board amended Regulation T to relax the existing rule that generally prohibited a broker or dealer from arranging for the extension of credit unless the terms and conditions were such that the broker or dealer himself would be able to extend the credit.

Votes for this action: Messrs. Mitchell, Bucher, Holland, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Burns and Wallich.

The Board took this action to permit brokers and dealers greater flexibility in their investment banking operations. The amendment sets forth the conditions under which brokers and dealers may now arrange credit in the private placement of securities.

DECEMBER 3, 1975

Amendments to Regulation Q (Interest on Deposits)

Effective December 4, 1975, the Board adopted two amendments to Regulation Q to facilitate the establishment of Individual Retirement Accounts (IRA's) at member banks.

Votes for this action: Messrs. Burns, Mitchell, Bucher, Holland, Wallich, Coldwell, and Jackson.
Votes against this action: None.

IRA's are retirement accounts established pursuant to the Employee Retirement Income Security Act of 1974 by persons not participating in any other pension plan. The statute allows an individual to deduct from gross income on his Federal income tax form funds deposited in an IRA to the extent that such funds do not

exceed \$1,500 or 15 per cent of his gross income (whichever is less). Furthermore, earnings on such accounts are not taxable until distributed to the individual.

The first of the two amendments permits member banks to pay all or a portion of an IRA time deposit prior to maturity, without penalty for early withdrawal, when the individual for whose benefit the account is maintained either attains age 59½ or becomes disabled. (Regulation Q normally requires a penalty when time deposits are withdrawn prior to maturity. The regulation does, however, already allow early withdrawals from time deposits without penalty in the case of the death of any person whose name appears on the deposit passbook or certificate.)

The second amendment adopted by the Board waives the \$1,000 minimum-denomination requirement for time deposits with 4- and 6-year maturities (carrying interest rates of up to 7¼ and 7½ per cent, respectively) when such deposits are made pursuant to IRA agreements. The amendment will eliminate the need for individuals to maintain IRA deposits at lower interest rates until each \$1,000 is reached.

In addition, the Board voted to allow member banks to amend existing IRA's to incorporate the provisions of the two amendments adopted without imposing the penalty usually required when time deposit agreements are modified.

The amendments apply only to funds deposited pursuant to IRA plans, not to HR-10 (Keogh) plans. Because of the statutory provisions relating to the administration and operation of Keogh plans, the Board believed that further study would be required to determine whether the amendments should also be made applicable to these accounts.

For additional information on these amendments, see the section on Consumer Affairs, which begins on page 307 of this REPORT.

DECEMBER 24, 1975

Amendment to Regulation D (Reserves of Member Banks)

Effective December 25, 1975, the Board amended Regulation D to reduce from 3 per cent to 2½ per cent the reserve requirement on

member bank time deposits with an original maturity of at least 180 days but less than 4 years.

Votes for this action: Messrs. Burns, Mitchell, Holland, Wallich, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Mr. Bucher.

This was the latest in a series of actions that the Board has taken to encourage member banks to lengthen their liabilities. (See previous actions on October 15, 1975, and November 13 and 18, 1974.)

The amendment provided that in no case may the reserves on the aggregate amount of time and savings deposits at any bank be less than 3 per cent, the minimum level allowed by law. The new reserve ratio was applicable to the level of deposits beginning the week of December 25–31, and affected required reserves beginning the statement week of January 8–14, 1976. It was expected that this action would release approximately \$340 million in reserves to the banking system.

1975—DISCOUNT RATES

The Board approved four reductions in the discount rate during 1975. As a result of these actions, all of which were taken during the first part of the year, the rate was lowered from a level of 7¾ per cent in early January to 6 per cent in mid-May. This period was characterized by marked weakness in economic activity and sizable declines in other interest rates. The discount rate remained unchanged over the balance of 1975, but in early 1976 it was reduced to 5½ per cent as short-term interest rates fell to new cyclical lows.

During the course of 1975 the Board voted on 22 occasions to turn down requests by various Federal Reserve Banks to lower the discount rate; there were no requests to raise the rate during the year. The denials were concentrated in the first 6 months and in the closing weeks of the year. The particular reasons for the Board's discount rate decisions are reviewed below, while the general economic and financial conditions that the Board considered in arriving at these decisions are covered in more detail elsewhere in this REPORT, espe-

cially in the discussion of the U.S. economy contained in Part I and in the Record of Policy Actions of the Federal Open Market Committee in Part II.²

January–mid-May: Reductions approved

On December 6, 1974, the Board had approved a reduction in the discount rate from 8 per cent to $7\frac{3}{4}$ per cent. That action was felt to be desirable in light of the slackening that had developed in demands for credit and in recognition of the sizable declines that had occurred in market interest rates. On January 3, 1975, a further decrease to $7\frac{1}{4}$ per cent was approved by the Board. In announcing this action the Board cited the continued weakening in economic activity. It also took into account the easing that was being implemented through other instruments of monetary policy. Consideration had been given to a smaller decrease of $\frac{1}{4}$ percentage point, but the Board concluded that a reduction of $\frac{1}{2}$ percentage point would provide a stronger signal of a less restrictive monetary policy and it would be more likely to have a constructive impact on short-term interest rates. The larger reduction was also intended to facilitate achievement of the growth objectives for the monetary aggregates established by the Federal Open Market Committee at its meeting in mid-December.

On January 8 the Board turned down a request to reduce the discount rate by an additional $\frac{1}{2}$ percentage point to $6\frac{3}{4}$ per cent. In the Board's judgment such a reduction was not warranted so soon after the action on January 3. Later in the month—on January 20 and January 24—requests by a number of Federal Reserve Banks to lower the discount rate to 7 per cent or to $6\frac{3}{4}$ per cent were also denied. In reaching these decisions the Board took into account the further easing of monetary policy that was being accomplished through open market operations and through the decrease in reserve requirements announced on January 20. In these circumstances the Board concluded that any further reduction in the discount rate should be delayed because a decrease at this time might give a misleading impression of the posture of monetary policy and thereby

² The individual decisions on discount rates during 1975 and the associated record of votes of the members of the Board are shown starting on page 147 of this REPORT.

have an undue impact on market interest rates. It was also felt that such an action would tend to aggravate the prevailing weakness of the dollar in foreign exchange markets.

Subsequently, on February 4, the Board approved a decrease in the discount rate from $7\frac{1}{4}$ to $6\frac{3}{4}$ per cent. The action was taken in recognition of the declines that had occurred in short-term interest rates during previous weeks. The reduction was also deemed to be timely in providing a further indication of the basic stance being pursued through other instruments of monetary policy. It was observed that any adverse impact on the value of the dollar in foreign exchange markets was likely to be moderated by reductions in some key discount rates abroad that were anticipated in the near future.

On February 14 and again on February 21 the Board turned down actions by a number of Federal Reserve Banks to reduce the discount rate by an additional $\frac{1}{2}$ percentage point to $6\frac{1}{4}$ per cent. In reaching its decisions, the Board took note of the continuing declines in short-term interest rates, but it concluded that the easing actions already under way should not be supplemented at that time by another cut in the discount rate. Some Board members felt that consideration should be given to the use of other instruments in any further easing of monetary policy. Attention was also focused on the weakness of the dollar in foreign exchange markets.

On March 7 the Board approved a decrease in the discount rate from $6\frac{3}{4}$ to $6\frac{1}{4}$ per cent. The major reasons for this action were the weakness in economic activity, recent evidence of moderation in the rate of inflation, and the desirability of bringing the discount rate into better alignment with other short-term interest rates. The Board also took into account the advantage of making a quick response to recent reductions in key discount rates abroad so as to minimize any negative impact that the System's action might have on the dollar in foreign exchange markets. During the Board's deliberations some sentiment in favor of reducing reserve requirements was expressed, either as a substitute for the discount rate action or as a later supplement to it.

On March 31 and April 4 the Board turned down actions by several Federal Reserve Banks to reduce the discount rate by $\frac{1}{4}$ or $\frac{1}{2}$ percentage point. In reaching these decisions the Board took note of the relatively low levels of most short-term interest rates, but it concluded

that a signal of further easing in monetary policy would not be desirable in light of indications of accelerating expansion in the monetary aggregates and developments with respect to fiscal policy.

Additional actions by several Federal Reserve Banks to lower the discount rate to 6 or to $5\frac{3}{4}$ per cent were denied by the Board from mid-April through early May. In arriving at these decisions the Board continued to give major weight to current and anticipated strength in the monetary aggregates. It was agreed that some arguments could be made in favor of a somewhat lower discount rate—including the fact that the rate was still above short-term market rates even though the latter had increased from earlier lows. The Board concluded, however, that a signal of further easing was likely to give a misleading impression of the general stance of monetary policy. The financing being conducted by the Treasury during the first part of May was also a factor in the decision not to change the discount rate at that time. Some Board members suggested, however, that in the absence of the Treasury financing a good case could have been made in favor of a $\frac{1}{4}$ percentage point reduction, partly to underscore the System's policy of fostering economic recovery.

Such a reduction was approved on May 15 following completion of the Treasury financing. The new rate of 6 per cent was the lowest in about 2 years. In announcing the action, the Board cited the declines that had occurred in other short-term interest rates and indicated that the reduction was intended to bring the discount rate into better alignment with short-term rates generally.

Mid-May–June: Pending reductions disapproved

The Board voted on May 15 and again on May 16 to disapprove pending reductions of $\frac{1}{2}$ percentage point—to $5\frac{3}{4}$ per cent—at two Federal Reserve Banks. It was thought that such reductions might have an unduly large impact on markets by fostering a misleading view of the outlook for monetary policy and interest rates.

On May 23 the Board denied a request to lower the discount rate from 6 to $5\frac{1}{2}$ per cent. The Board decided that an action signaling further easing in monetary policy would not be desirable, especially in light of the May 15 reduction in the discount rate and the mounting evidence of rapid expansion in the monetary aggregates. On June 6

and again on June 16 the Board turned down actions by some Reserve Banks to reduce the discount rate to $5\frac{3}{4}$ per cent. The Board based its decisions mainly on the current and immediately prospective strength of the monetary aggregates. Some Board members also felt that an easing action could have a significant impact on the foreign exchange value of the dollar, particularly since it was believed that other major countries were not likely to reduce their discount rates.

July–October: No discount rate actions

No further actions to change the discount rate were taken by the Federal Reserve Banks until late in the fall. In this interval, which was characterized by an upturn in general business activity, monetary policy sought to foster a financial climate conducive to a satisfactory recovery but at the same time to minimize the chances of rekindling inflationary pressures. The monetary aggregates expanded at an excessively rapid pace during the early part of this period, but the rate of growth subsequently abated. Short-term interest rates rose somewhat during the summer months and then declined to new cyclical lows by the early weeks of 1976.

November–December: Pending reductions disapproved

During November and December the Board turned down several actions by Federal Reserve Banks to lower the discount rate by $\frac{1}{4}$ or $\frac{1}{2}$ percentage point. The Board decided that a decrease under prevailing circumstances would be likely to convey a wrong impression of the outlook for monetary policy, especially since the action would be viewed in the context of reductions in reserve requirements being voted by the Board and of declines in the Federal funds rate. Early in this period the Board also felt that a reduction could have an undesirable impact on inflationary expectations because it would follow large increases in consumer and wholesale prices. Moreover, the Board felt that the discount rate was not seriously out of line with other short-term interest rates until the latter part of December.

At its meeting on December 24 the Board voted to reduce reserve requirements on certain time deposits in order to encourage member banks to lengthen the structure of their deposit liabilities. It also voted

to disapprove actions by two Banks to reduce the discount rate by $\frac{1}{4}$ and $\frac{1}{2}$ percentage point. Most interest rates had declined in previous days and key short-term rates were below the discount rate. However, the Board felt that a cut in the discount rate that coincided with the announcement of a reduction in reserve requirements would not be desirable because it would be misinterpreted as a signal of significant easing in monetary policy.

After the turn of the year, on January 16, 1976, the Board approved a decrease of $\frac{1}{2}$ percentage point in the discount rate to $5\frac{1}{2}$ per cent. Short-term interest rates had declined considerably in previous weeks and were generally at levels well below the discount rate. In this situation the Board felt a reduction was desirable to bring the discount rate into better alignment with other short-term interest rates. The action was also deemed to be consistent with the general thrust of monetary policy, which had fostered some easing of money market conditions in order to stimulate the lagging growth of the monetary aggregates.

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.

A corresponding change in the rate on advances to member banks under Section 10(b) of the Federal Reserve Act was approved each time the rate under Sections 13 and 13a was reduced during 1975. However, the Board approved changes in rates under other sections of the Federal Reserve Act that had the effect of widening from $\frac{1}{2}$ to 2 percentage points the spread between the highest rate that a member bank may be charged on its borrowings from the Federal Reserve and the rate that may be charged to nonmember borrowers.

As of December 31, 1975, the structure of rates was as follows: 6 per cent for borrowings under Sections 13 and 13a; $6\frac{1}{2}$ per cent for

borrowings at the regular rate and 7 per cent for borrowings at the special rate under Section 10(b); and 9 per cent for borrowings by individuals, partnerships, or corporations other than member banks under the last paragraph of Section 13.

January 3, 1975

Effective January 6, 1975, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, Philadelphia, Cleveland, Richmond, Dallas, and San Francisco to reduce the discount rate from $7\frac{3}{4}$ per cent to $7\frac{1}{4}$ per cent.

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

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of New York, Chicago, St. Louis, and Minneapolis, effective January 10; the Federal Reserve Bank of Atlanta, effective January 13; and the Federal Reserve Bank of Kansas City, effective January 24.

January 8, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on January 7 to reduce the discount rate to $6\frac{3}{4}$ per cent.

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

January 20, 1975

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Philadelphia and San Francisco on January 16 to reduce the discount rate to 7 per cent.

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

January 24, 1975

The Board disapproved actions taken by the directors of the Federal Reserve Bank of Boston on January 23 to reduce the discount rate to 6¾ per cent and by the directors of the Federal Reserve Bank of Atlanta on January 24 to reduce the discount rate to 7 per cent.

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

February 4, 1975

Effective February 5, 1975, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Minneapolis, Dallas, and San Francisco to reduce the discount rate to 6¾ per cent.

Votes for this action: Messrs. Burns, Mitchell, Sheehan, Bucher, Holland, and Wallich. Vote against this action: Mr. Coldwell.

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Bank of Chicago, effective February 6, and the Federal Reserve Banks of St. Louis and Kansas City, effective February 7.

Mr. Coldwell dissented from the action on the grounds that a further signal of monetary ease was not desirable at that time, especially in light of the reductions already made in the discount rate and in reserve requirements since early December. He referred, in addition, to the sizable increase in reserves supplied to the banking system in recent months and indicated his preference for slowing the pace of the System's easing actions. He also noted his concern that too rapid a decline in U.S. interest rates might weaken the dollar further in foreign exchange markets.

February 14, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Minneapolis on February 13 to reduce the discount rate to 6¾ per cent.

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

February 21, 1975

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Boston, Philadelphia, and San Francisco on February 20 to reduce the discount rate to $6\frac{1}{4}$ per cent.

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

March 7, 1975

Effective March 10, 1975, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis, Kansas City, and San Francisco to reduce the discount rate to $6\frac{1}{4}$ per cent.

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

The Board subsequently approved similar actions taken by the directors of the Federal Reserve Banks of St. Louis and Dallas, effective March 14.

March 31, 1975

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Philadelphia, Chicago, and Atlanta on March 20, March 27, and March 28, respectively, to reduce the discount rate to 6 per cent; and by the directors of the Federal Reserve Banks of Boston and Kansas City on March 20 and the Federal Reserve Bank of Cleveland on March 27 to reduce the discount rate to $5\frac{3}{4}$ per cent.

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

April 4, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of San Francisco on April 3 to reduce the discount rate to 5¾ per cent.

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

April 16, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on April 11 to reduce the discount rate to 6 per cent, and by the directors of the Federal Reserve Bank of Cleveland on April 10 to reduce the discount rate to 5¾ per cent.

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

April 18, 1975

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Kansas City and San Francisco on April 17 to reduce the discount rate to 5¾ per cent.

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

April 28, 1975

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Chicago and Atlanta on April 24 and April 25, respectively, to reduce the discount rate to 6 per cent, and by the directors of the Federal Reserve Bank of Cleveland on April 24 to reduce the discount rate to 5¾ per cent.

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

April 30, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Boston on April 29 to reduce the discount rate to 5¾ per cent.

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

May 5, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of San Francisco on May 1 to reduce the discount rate to 5¾ per cent.

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

May 15, 1975

Effective May 16, 1975, the Board approved actions taken by the directors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Kansas City, and Dallas to reduce the discount rate to 6 per cent.

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

The Board later approved similar actions taken by the directors of the Federal Reserve Banks of San Francisco and Minneapolis, effective May 19 and May 23, respectively.

May 15, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on May 15 to reduce the discount rate to $5\frac{3}{4}$ per cent.

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

May 16, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of San Francisco on May 15 to reduce the discount rate to $5\frac{3}{4}$ per cent.

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

Mr. Bucher indicated that the proposed reduction would have been in keeping with his views regarding a desirable monetary policy and would also have served, in his judgment, to bring the discount rate into better alignment with other short-term interest rates.

May 23, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Kansas City on May 22 to reduce the discount rate to $5\frac{1}{2}$ per cent.

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

June 6, 1975

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Kansas City and Atlanta on June 5 and June 6, respectively, to reduce the discount rate to $5\frac{3}{4}$ per cent.

Votes for this action: Messrs. Burns, Mitchell, Holland, and Wallich. Votes against this action: None. Absent and not voting: Messrs. Bucher and Coldwell.¹

June 16, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Atlanta on June 13 to reduce the discount rate to 5¾ per cent.

Votes for this action: Messrs. Burns, Mitchell, Bucher, Holland, Wallich, and Coldwell. Votes against this action: None.¹

November 7, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of San Francisco on November 6 to reduce the discount rate to 5¾ per cent.

Votes for this action: Messrs. Burns, Mitchell, Holland, Wallich, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Mr. Bucher.

November 21, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Philadelphia on November 20 to reduce the discount rate to 5¾ per cent.

Votes for this action: Messrs. Burns, Mitchell, Holland, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Bucher and Wallich.

December 10, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of San Francisco on December 4 to reduce the discount rate to 5¾ per cent.

¹ There was one vacancy on the Board at the time this action was taken.

Votes for this action: Messrs. Burns, Holland, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Messrs. Mitchell, Bucher, and Wallich.

December 17, 1975

The Board disapproved an action taken by the directors of the Federal Reserve Bank of Dallas on December 11 to reduce the discount rate to $5\frac{3}{4}$ per cent.

Votes for this action: Messrs. Burns, Mitchell, Holland, Wallich, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Mr. Bucher.

December 24, 1975

The Board disapproved actions taken by the directors of the Federal Reserve Banks of Kansas City and San Francisco on December 18 to reduce the discount rate to $5\frac{3}{4}$ per cent and $5\frac{1}{2}$ per cent, respectively.

Votes for this action: Messrs. Burns, Mitchell, Holland, Wallich, Coldwell, and Jackson. Votes against this action: None. Absent and not voting: Mr. Bucher.

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 1975, 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 as amended at the Federal Open Market Committee meeting of March 18, 1975, the policy record for each meeting was released approximately 45 days following the date of the meeting beginning

with the record for the meeting held on February 19, 1975, and was subsequently published in the Federal Reserve *Bulletin* as well as in this ANNUAL REPORT. Prior to that time the policy record for each meeting was released approximately 90 days after the date of the meeting.

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—an Authorization for Domestic Open Market Operations and a domestic policy directive. In the foreign currency area it operates under an Authorization for 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 1975. Changes in the instruments during the year are reported in the records for the individual meetings.

AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

In effect January 1, 1975

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 domestic policy directive adopted at a meeting of the Committee:

(a) To buy or sell U.S. Government securities, including securities of the Federal Financing Bank, 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 (including forward commitments) at the close of business on the day of a meeting of the Committee at which action is taken with respect to

a domestic policy directive shall not be increased or decreased by more than \$3.0 billion during the period commencing with the opening of business on the day following such meeting and ending with the close of business on the day of the next such meeting;

(b) To buy or sell in the open market, from or to acceptance dealers and foreign accounts maintained at the Federal Reserve Bank of New York, on a cash, regular, or deferred delivery basis, for the account of the Federal Reserve Bank of New York at market discount rates, prime bankers' acceptances with maturities of up to 9 months at the time of acceptance that (1) arise out of the current shipment of goods between countries or within the United States, or (2) arise out of the storage within the United States of goods under contract of sale or expected to move into the channels of trade within a reasonable time and that are secured throughout their life by a warehouse receipt or similar document conveying title to the underlying goods; provided that the aggregate amount of bankers' acceptances held at any one time shall not exceed \$1 billion.

(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 of the types authorized for purchase under 1(b) above, 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 $\frac{1}{4}$ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$1 billion.

3. In order to insure the effective conduct of open market operations, the Federal Open Market Committee authorizes and directs the Federal Reserve Banks to lend U.S. Government securities held in the System Open Market Account to Government securities dealers and to banks participating in Government securities clearing arrangements conducted through a Federal Reserve Bank, under such instructions as the Committee may specify from time to time.

DOMESTIC POLICY DIRECTIVE

In effect January 1, 1975

The information reviewed at this meeting suggests that real output of goods and services is falling substantially further in the current quarter. Price and wage increases are continuing large, although not so large as earlier this year. In November declines in industrial production and employment were sharp and widespread, and the unemployment rate increased further, from 6.0 to 6.5 per cent. In recent weeks additional production cutbacks and layoffs have been announced. The November rise in wholesale prices of industrial commodities, although substantial, remained well below the extraordinarily rapid rate in the first 8 months of the year.

Since mid-November the dollar has declined somewhat further against leading foreign currencies. In October the U.S. foreign trade deficit was reduced sharply for the second consecutive month, while there were continued net inflows of bank-reported private capital and of investments by oil-exporting countries.

Growth of the narrowly defined money stock increased in November to an annual rate of about 7 per cent. Net inflows of consumer-type time and savings deposits remained strong at banks and continued to improve at nonbank thrift institutions, and the more broadly defined money supply measures again expanded appreciably. Bank loans increased only moderately. Most market interest rates, after rising in the second half of November, subsequently turned down again. Yields on State and local government securities, however, continued under upward pressure. Effective December 9, Federal Reserve discount rates were reduced from 8 to $7\frac{3}{4}$ per cent.

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 recessionary tendencies and encouraging resumption of real economic growth, and achieving equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with somewhat more rapid growth in monetary aggregates over the months ahead than has occurred in recent months.

AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

In effect January 1, 1975

1. The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, for System Open Market Account, to the extent necessary to carry out the Committee's foreign currency directive and express authorizations by the Committee pursuant thereto:

A. To purchase and sell the following foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the U.S. Stabilization Fund established by Section 10 of the Gold Reserve Act of 1934, with foreign monetary authorities, and with the Bank for International Settlements:

Austrian schillings
Belgian francs
Canadian dollars
Danish kroner
Pounds sterling
French francs
German marks
Italian lire
Japanese yen
Mexican pesos
Netherlands guilders
Norwegian kroner
Swedish kronor
Swiss francs

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

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

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

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

(4) Sterling purchased on a covered or guaranteed basis in terms of the dollar, under agreement with the Bank of England, up to \$200 million equivalent.

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

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

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

D. To draw foreign currencies and to permit foreign banks to draw dollars under the reciprocal currency arrangements listed in paragraph 2 below, provided that drawings by either party to any such arrangement shall be fully liquidated within 12 months after any amount outstanding at that time was first drawn, unless the Committee, because of exceptional circumstances, specifically authorizes a delay.

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

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Austrian National Bank	250
National Bank of Belgium	1,000
Bank of Canada	2,000
National Bank of Denmark	250
Bank of England	3,000

Foreign bank	Amount of arrangement (millions of dollars equivalent)
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	3,000
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 authorized European currencies other than Swiss francs	1,250

3. Currencies to be used for liquidation of System swap commitments may be purchased from the foreign central bank drawn on, at the same exchange rate as that employed in the drawing to be liquidated. Apart from any such purchases at the rate of the drawing, all transactions in foreign currencies undertaken under paragraph 1(A) above shall, unless otherwise expressly authorized by the Committee, be at prevailing market rates and no attempt shall be made to establish rates that appear to be out of line with underlying market forces.

4. It shall be the practice to arrange with foreign central banks for the coordination of foreign currency transactions. In making operating arrangements with foreign central banks on System holdings of foreign currencies, the Federal Reserve Bank of New York shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee. Any agreements or understandings concerning the administration of the accounts maintained by the Federal Reserve Bank of New York with the foreign banks designated by the Board of Governors under Section 214.5 of Regulation N shall be referred for review and approval to the Committee.

5. Foreign currency holdings shall be invested insofar as practicable, considering needs for minimum working balances. Such investments shall be in accordance with Section 14(e) of the Federal Reserve Act.

6. 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.

7. The Chairman (and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors) is authorized:

A. With the approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;

B. To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities; and

C. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.

8. Staff officers of the Committee are authorized to transmit pertinent information on System foreign currency operations to appropriate officials of the Treasury Department.

9. All Federal Reserve Banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.

FOREIGN CURRENCY DIRECTIVE

In effect January 1, 1975

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

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

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

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

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

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

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

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

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

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

D. To adjust System balances within the limits established in the Authorization for Foreign Currency Operations in light of probable future needs for currencies.

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

4. Unless otherwise expressly authorized by the Committee, transactions in forward exchange, either outright or in conjunction with spot

transactions, may be undertaken only (i) to prevent forward premiums or discounts from giving rise to disequilibrating movements of short-term funds; (ii) to minimize speculative disturbances; (iii) to supplement existing market supplies of forward cover, directly or indirectly, as a means of encouraging the retention or accumulation of dollar holdings by private foreign holders; (iv) to allow greater flexibility in covering System or Treasury commitments, including commitments under swap arrangements, and to facilitate operations of the Stabilization Fund; (v) to facilitate the use of one currency for the settlement of System or Treasury commitments denominated in other currencies; and (vi) to provide cover for System holdings of foreign currencies.

MEETING HELD ON JANUARY 20–21, 1975¹

1. Domestic Policy Directive

Preliminary estimates of the Commerce Department indicated that real output of goods and services (real gross national product) had fallen at an annual rate of about 9 per cent in the fourth quarter of 1974, after having declined at an average rate of about 3.5 per cent over the first three quarters of the year. Staff projections suggested that real economic activity would continue to recede in the first half of 1975; that the rate of increase in prices, while still rapid, would moderate; and that nominal GNP would continue to grow at a slow pace.

In December retail sales had risen somewhat, according to the advance estimate, after having declined considerably in the preceding 3 months. The index of industrial production fell sharply further in December; curtailments in output were large and widespread in part because of efforts to liquidate inventories. Employment cutbacks also were widespread, especially among manufacturing establishments. The unemployment rate rose from 6.5 to 7.1 per cent, and the number of persons with only part-time jobs continued to increase.

Average wholesale prices of industrial commodities were unchanged in December—after having risen much less rapidly from August to November than earlier in the year—as declines in a number of basic commodities offset increases in machinery and other more highly fabricated products. Wholesale prices of farm and food products declined, following 2 months of substantial increases. During the final 3 months of 1974 the advance in the index of average hourly earnings for private nonfarm production workers was considerably less rapid than in the two previous quarters.

In his State of the Union message on January 15, the President

¹This meeting began on the afternoon of January 20 and continued on the following day.

set forth a program of fiscal stimulus, which included cash refunds of 1974 personal income taxes in two equal instalments—in May and September of this year—and an increase for 1 year in the investment tax credit for businesses and farmers. The proposed tax reductions were estimated to amount to \$12 billion for individuals and \$4 billion for businesses and farmers. In addition, the President proposed excise taxes and import fees on petroleum and excise taxes on natural gas to reduce the use of these energy sources; removal of price controls from domestic crude oil to encourage production; and a tax to recover the windfall profits resulting from the decontrol of prices. The taxes and fees would yield \$30 billion in Federal revenues, on an annual basis, which would be returned to the economy through a permanent reduction in taxes on corporate and individual incomes; through payments of up to \$80 to low-income individuals, including some who would pay no Federal income taxes; and through certain other measures.

Staff projections for the first half of 1975 in essence were similar to those of 5 weeks earlier, although the declines now expected in real GNP were larger for the current quarter and smaller for the second quarter. The President's fiscal program, if enacted, was expected to improve the prospects for an upturn in economic activity in the second half of the year but to have little impact before then, apart from adding to disposable personal income toward the end of the second quarter. Accordingly, it was still anticipated that the rise in personal consumption expenditures would be little, if any, greater than the increase in prices; that the expansion in business fixed investment outlays would fall short of the increase in prices; that residential construction activity would decline further in the current quarter and then turn up; and that the rate of business inventory investment would fall substantially in the first quarter and then shift to liquidation in the next.

The exchange rate for the dollar against leading foreign currencies—which had been declining since early September—fell somewhat further between mid-December and mid-January, in association with decreases in interest rates in this country relative to those in other major countries. The U.S. foreign trade deficit—after narrowing in September and October—remained moderate in November, as both exports and imports rose substantially. Oil-exporting countries continued to add to their investments in the United

States, and large inflows and outflows of bank-reported private capital were roughly offsetting.

At U.S. commercial banks total loans and investments declined sharply from the end of November to the end of December, reflecting in large part decreases in outstanding loans to businesses and to nonbank financial institutions; banks reduced their over-all holdings of securities slightly. In contrast with immediately preceding months, businesses reduced their borrowings in the commercial paper market as well as at banks, in part as a result of efforts to fund short-term debts. In early January most banks reduced the prime rate applicable to large corporations in two steps from 10½ per cent to 10 per cent, but reductions in the rate continued to lag behind declines in commercial paper rates.

Growth in the narrowly defined money stock (M_1)² slowed to an annual rate of about 2 per cent in December. Growth in the more broadly defined money stock (M_2)³ also slowed as net inflows to banks of time and savings deposits other than money market certificates of deposit (CD's) declined sharply; however, net inflows of deposits to nonbank thrift institutions continued to improve. Over the fourth quarter as a whole, M_1 and M_2 grew at rates of 4 and nearly 7 per cent, respectively.⁴ Weekly data indicated that M_1 had declined somewhat in early January but that inflows to banks of consumer-type time and savings deposits had picked up.

On January 20 the Board of Governors announced a reduction in reserve requirements on the net demand deposits of member commercial banks. The action—which would release about \$1.1 billion in reserves to the banking system in the week beginning February 13—was designed to permit further gradual improvement in bank liquidity and to facilitate moderate growth in the monetary aggregates.

System open market operations since the December 16–17 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with somewhat more rapid growth in monetary aggregates over the months ahead

²Private demand deposits plus currency in circulation.

³ M_1 plus commercial bank time and savings deposits other than money market CD's.

⁴The growth rates cited for the quarter 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.

than had occurred in recent months, while taking account of developments in domestic and international financial markets. Data that had become available in the weeks immediately after the December meeting suggested that in the December–January period the aggregates would grow at rates near or below the lower limits of the ranges of tolerance that had been specified by the Committee. Consequently, System operations persistently had been directed toward further easing in bank reserve and money market conditions. In the statement week ending January 8, the Federal funds rate had averaged slightly below $7\frac{3}{4}$ per cent—down from about $8\frac{3}{4}$ per cent at the time of the December meeting.

The data that became available on January 9 indicated still greater weakness in the aggregates; it appeared that M_1 and M_2 would grow in the December–January period at rates well below the lower limits of the specified ranges of tolerance. The System currently was conducting reserve-supplying operations thought to be consistent with a weekly average funds rate at about the $7\frac{1}{2}$ per cent lower limit of its specified range of tolerance. Against the background of those developments and to give the Manager greater flexibility, Chairman Burns recommended on January 9 that the lower limit of the funds rate constraint be reduced to $7\frac{1}{8}$ per cent for the period remaining until the next Committee meeting. The members of the Committee concurred, and over most of that period the funds rate was slightly above 7 per cent.

Short-term market interest rates declined substantially further over the inter-meeting period, in response to the weakening in business demands for short-term credit, to System open market operations to ease bank reserve and money market conditions, and to a reduction in Federal Reserve discount rates. Discount rate reductions of $\frac{1}{2}$ of a percentage point, to $7\frac{1}{4}$ per cent, at six Reserve Banks were announced on January 3, to be effective on January 6; shortly thereafter, rates were reduced at the remaining six Banks. Over the inter-meeting period the market rate on 3-month Treasury bills declined nearly three-fourths of a percentage point, to about 6.40 per cent, and rates on private short-term instruments declined considerably more.

Yields on longer-term bonds in general changed little in the inter-meeting period—despite the declines in short-term rates—because corporate financing in the capital market had been and was

expected to remain substantial and prospective Treasury financings were large. The volume of public offerings of corporate bonds in December was exceptionally heavy for that season, and a near-record volume was in prospect for January. In the home mortgage market contract interest rates on new commitments for conventional mortgages in the primary market and yields on commitments in the secondary market for Federally underwritten mortgages declined further from early December to mid-January.

The Treasury was expected to announce shortly the terms of its mid-February refunding. Of the maturing issues, \$3.55 billion were held by the public.

The Committee decided that the economic situation and outlook called for more rapid growth in monetary aggregates over the months ahead than had occurred in recent months. A staff analysis suggested that—although M_1 was not expanding in January—the demand for money would pick up in February, in part as a result of the lagged effects of earlier declines in interest rates. Nevertheless, it appeared likely that if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates, money market conditions would have to ease further in the period immediately ahead. It was expected that net inflows of consumer-type time and savings deposits to banks and to non-bank thrift institutions would be relatively strong. Demands for bank credit appeared likely to be moderate.

The Committee concluded that growth in M_1 and M_2 over the January–February period at annual rates within ranges of tolerance of $3\frac{1}{2}$ to $6\frac{1}{2}$ per cent and 7 to 10 per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The members agreed that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of tolerance of $6\frac{1}{4}$ to $9\frac{1}{4}$ per cent. They also agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion within a range of $6\frac{1}{2}$ to $7\frac{1}{4}$ per cent, if necessary in the course of operations.

The members also agreed that, in the conduct of operations, account should be taken of the forthcoming Treasury financing and of developments in domestic and international financial markets. 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 real output of goods and services fell sharply in the fourth quarter of 1974 and that further declines are in prospect for the months immediately ahead. In December declines in industrial production and employment again were sharp and widespread, and the unemployment rate increased from 6.5 to 7.1 per cent. Average wholesale prices of industrial commodities were unchanged, after having risen much less rapidly from August to November than earlier in the year, and prices of farm and food products declined. In recent months increases in average wage rates have been large, but not so large as in the spring and summer.

In his State of the Union message, the President set forth a program of fiscal stimulus, including tax rebates for individuals and a temporary increase in the investment tax credit for business. The President also proposed a new program to reduce the consumption of energy; the program includes new taxes in the energy area along with measures of tax relief that, on balance, are designed to have a neutral effect on the size of the Federal deficit.

The dollar in December and early January continued the gradual decline against leading foreign currencies that began in September. In November, as in October, the U.S. foreign trade deficit was moderate; sizable inflows of official funds from oil-exporting countries continued, while other capital inflows and outflows reported by banks were roughly offsetting.

The narrowly defined money stock grew at an annual rate of 4 per cent over the fourth quarter of 1974, while the more broadly defined measure of the stock grew at a rate of nearly 7 per cent. In December and early January, however, the narrowly defined money stock changed little. Net inflows of consumer-type time and savings deposits at banks slowed sharply in December, although they continued to improve at nonbank thrift institutions; in early January deposit inflows at banks picked up. Business demands for short-term credit, both at banks and in the commercial paper market, moderated further in December, while demands in the long-term market remained strong. Over recent weeks short-term market interest rates

have declined substantially, but yields on long-term securities have changed little, on balance. Federal Reserve discount rates were reduced from $7\frac{3}{4}$ to $7\frac{1}{4}$ per cent in early January, and on January 20 the Board announced a reduction in reserve requirements on demand deposits estimated to release \$1.1 billion in required reserves.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments, to foster financial conditions conducive to cushioning recessionary tendencies and stimulating economic recovery.

To implement this policy, while taking account of the forthcoming Treasury financing, developments in domestic and international financial markets, and the Board's action on reserve requirements, the Committee seeks to achieve bank reserve and money market conditions consistent with more rapid growth in monetary aggregates over the months ahead than has occurred in recent months.

Votes for this action: Messrs. Burns, Black, Bucher, Clay, Coldwell, Holland, Kimbrel, Mitchell, Sheehan, Wallich, Winn, and Debs. Votes against this action: None.

Absent and not voting: Mr. Hayes. (Mr. Debs voted as alternate for Mr. Hayes.)

Subsequent to the meeting, on February 5, the available data suggested that in January M_1 had declined sharply and that growth in M_2 had been only modest. Growth rates for the January–February period appeared to be well below the lower limits of the ranges of tolerance specified by the Committee. The weakness in the monetary aggregates wholly reflected the behavior of demand deposits; growth in consumer-type time deposits remained relatively strong. The System Account Manager currently was endeavoring to supply reserves at a rate thought to be consistent with a Federal funds rate of $6\frac{1}{2}$ per cent, the lower limit of the range of tolerance that had been specified by the Committee. On February 5 a majority of the members concurred in the Chairman's recommendation that, in light of those developments and of the reduction in discount rates effective that day, the lower limit of the funds rate constraint be reduced to $6\frac{1}{4}$ per cent. Mr. Sheehan did not concur because he preferred to reduce the lower limit of the funds rate constraint to 6 per cent, rather than $6\frac{1}{4}$ per cent.

2. Amendment to Authorization for Domestic Open Market Operations

On January 30 the Committee members voted to amend a provision of paragraph 2 of the authorization for domestic open market operations, which specified that a Reserve Bank other than the New York Bank could purchase special certificates of indebtedness directly from the Treasury only if the latter Bank was closed, by striking the word "if" in the clause "or, if the New York Bank is closed," and inserting in its place the words "under special circumstances, such as when. . . ." With this amendment, paragraph 2 read as follows:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, under special circumstances, such as when the New York Reserve Bank is closed, any other Federal Reserve Bank, to purchase directly from the Treasury for its own account (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the rate charged on such certificates shall be a rate $\frac{1}{4}$ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$1 billion.

Votes for this action: Messrs. Burns, Black, Bucher, Clay, Coldwell, Holland, Mitchell, Sheehan, Winn, Baughman, and Debs. Votes against this action: None.

Absent and not voting: Messrs. Hayes, Kimbrel, and Wallich. (Mr. Debs voted as alternate for Mr. Hayes and Mr. Baughman voted as alternate for Mr. Kimbrel.)

This action was taken on the recommendation of the Account Manager, who had advised Committee members that, under certain circumstances involving holidays not uniformly celebrated throughout the country, it would be convenient for the Treasury if the authority for Reserve Banks other than New York to purchase special Treasury certificates of indebtedness was not confined exclusively to times when the New York Reserve Bank was closed.

MEETING HELD ON FEBRUARY 19, 1975

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services, which had declined throughout 1974, was falling sharply further in the first quarter of 1975; that the rise in prices was moderating significantly; and that nominal GNP was declining. Staff projections suggested that real economic activity would recede further in the second quarter and that price increases would continue to moderate.

In January retail sales had risen somewhat, according to the advance estimate, but they had remained well below the levels of last summer and early autumn. For the third consecutive month cutbacks in production and employment were substantial and widespread, in part because of continuing efforts to liquidate inventories. The unemployment rate rose a full percentage point, to 8.2 per cent, and the number of persons working only part time increased further.

The advance in the index of average hourly earnings for private nonfarm production workers was substantial in January, but as in the final months of 1974, it was considerably less rapid than in the spring and summer of last year. Average wholesale prices of industrial commodities—which were unchanged in December—rose moderately in January, in part because of increases in machinery and in fuels and power; wholesale prices of farm and food products declined further. In December the consumer price index had continued to rise, although the increase had not been so large as in most earlier months in 1974.

The latest staff projections for the first half of 1975 suggested that nominal GNP would change little and that real GNP would contract substantially more than had been expected at the time of the last meeting, to a considerable extent because the curtailment in business fixed investment and the liquidation of business inventories were now expected to be sharper than had been anticipated

earlier. It was now expected that the rise in disposable personal income would fall short of the increase in consumer prices until late in the second quarter—when tax rebates were scheduled under the administration's budget proposals—and that real personal consumption expenditures would decline. However, the more rapid liquidation of inventories expected in the first half of the year—along with the tax rebates and other stimulative fiscal measures in prospect—tended to strengthen the prospects for an upturn in economic activity in the second half.

The exchange rate for the dollar against leading foreign currencies remained under downward pressure throughout January. In early February the Federal Reserve System and some European central banks began concerted intervention purchases of dollars in the exchange markets, which—in conjunction with sharp decreases in European interest rates—arrested the decline in the value of the dollar. In the days just before this meeting, however, downward pressure was renewed and the value of the dollar declined somewhat. In December the U.S. foreign trade deficit had widened, reflecting a substantial increase in imports of fuels and decreases in exports of many nonagricultural products.

At U.S. commercial banks total loans and investments rose moderately from the end of December to the end of January, after having declined sharply in the preceding month. Over the 2-month period, outstanding bank loans to business declined; business demands for short-term credit weakened both at banks and in the commercial paper market, reflecting the recession in economic activity and business funding of short-term debts through heavy capital market financing. Consumer loans at banks also declined, while real estate loans increased moderately. In late January and early February most banks gradually reduced the prime rate applicable to large corporations from 10 per cent to 8¾ per cent, but reductions in the rate continued to lag behind declines in short-term market interest rates.

The narrowly defined money stock (M_1)—which had grown at an annual rate of about 4.5 per cent in the fourth quarter of 1974—declined at a rate of about 9.5 per cent in January, reflecting a sharp decrease in demand deposits; the amount of currency in circulation continued to expand. Net inflows of consumer-type time and savings deposits at banks and at nonbank thrift institutions

were strong, and broader measures of the money stock (M_2 and M_3) continued to grow, although at rates well below those in the fourth quarter of last year.

On January 22 the Treasury announced that it would auction up to \$5.5 billion of notes and bonds, of which \$3.55 billion represented refunding of publicly held notes that were to mature in mid-February. In auctions on January 28, 29, and 30, respectively, the Treasury sold \$3 billion of 3¼-year notes at an average price to yield 7.21 per cent, \$1.75 billion of 6-year notes at an average price to yield 7.49 per cent, and \$750 million of 25-year bonds at an average price to yield 7.95 per cent.

System open market operations since the January 20–21 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with more rapid growth in monetary aggregates over the months ahead than had occurred in recent months, while taking account of the forthcoming Treasury financing, developments in domestic and international financial markets, and the Board's action of January 20 reducing reserve requirements on demand deposits. Data that had become available in the weeks immediately after the January meeting suggested that in the January–February period the aggregates would grow at rates below the lower limits of the ranges of tolerance that had been specified by the Committee. Consequently, System operations persistently had been directed toward further easing in bank reserve and money market conditions. The Federal funds rate, which had averaged 7½ per cent in the statement week ending January 22, had declined by the statement week ending February 5 to an average 6½ per cent, the lower limit of its specified range of tolerance.

The data that became available in early February indicated still greater weakness in the aggregates; it appeared that growth rates for M_1 and M_2 in the January–February period would fall well below the lower limits of the ranges of tolerance specified by the Committee. On February 5 a majority of the members concurred in the Chairman's recommendation that the lower limit of the funds rate constraint be reduced to 6¼ per cent, and over the period remaining until this meeting the funds rate was close to that level.

Short-term market interest rates declined substantially further over the inter-meeting period, in response to the weakness in business demands for short-term credit and to System open market

operations to ease bank reserve and money market conditions. On the day before this meeting the market rate on 3-month Treasury bills was 5.32 per cent, down about 1 percentage point from the rate at the time of the last meeting. Federal Reserve discount rates were reduced at nine Reserve Banks from $7\frac{1}{4}$ to $6\frac{3}{4}$ per cent, effective February 5; shortly thereafter, rates were reduced at the remaining three Banks.

The continued easing in short-term interest rates contributed to significant declines in longer-term rates, notwithstanding a large volume of offerings of new issues. Public offerings of corporate bonds rose sharply in January to a near-record volume, and only a moderate decline was in prospect for February. In the home mortgage market, contract interest rates on new commitments for conventional mortgages in the primary market and yields on commitments in the secondary market for Federally underwritten mortgages declined substantially further during January.

The Committee decided that the economic situation and outlook called for more rapid growth in monetary aggregates over the months ahead than had occurred in recent months. A staff analysis suggested that the demand for money would rebound and that growth in M_1 would be substantial in the weeks immediately ahead, in accordance with an expected shift toward a more normal relationship between the transactions demands for money and nominal GNP. However, in part because of the weaker behavior of nominal GNP now projected, it appeared likely that if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates, money market conditions would have to ease further in the period immediately ahead. Sustained strength in net inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions was anticipated, in response to the continuing decline in short-term interest rates. Private demands for short-term credit were expected to remain weak, but the Treasury was likely to borrow additional new cash over the months ahead.

The Committee concluded that growth in M_1 and M_2 over the February–March period at annual rates within ranges of tolerance of $5\frac{1}{2}$ to $7\frac{1}{2}$ per cent and $6\frac{1}{2}$ to $8\frac{1}{2}$ per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The growth rate of reserves available to support private

nonbank deposits (RPD's) in the same period was expected to be low—in a range of $\frac{1}{4}$ to $2\frac{1}{4}$ per cent—mainly because of the 2-week lag in reserve accounting. The members agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion in a range of $5\frac{1}{4}$ to $6\frac{1}{4}$ per cent, if necessary in the course of seeking monetary growth rates within the ranges specified. The members also agreed that in the conduct of operations, account should be taken of developments in domestic and international financial markets.

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

The information reviewed at this meeting suggests that real output of goods and services is continuing to fall sharply in the current quarter. In January declines in industrial production and employment were large and widespread for the third consecutive month. The unemployment rate rose a full percentage point to 8.2 per cent. Average wholesale prices of industrial commodities, which were unchanged in December, rose moderately in January, and prices of farm and food products declined further. In recent months increases in average wage rates have moderated, although they have still been large.

The decline in the foreign exchange value of the dollar was arrested in early February by concerted central bank intervention and a sharp decline in European interest rates, but in recent days the dollar has declined somewhat. In December the U.S. foreign trade deficit increased, but it was smaller in the fourth quarter as a whole than in the third.

The narrowly defined money stock, after having grown at an annual rate of about $4\frac{1}{2}$ per cent over the fourth quarter of 1974, declined sharply in January. However, net inflows of consumer-type time and savings deposits at banks and nonbank thrift institutions were large, and broader measures of the money stock continued to expand. Business demands for short-term credit have weakened in recent months, both at banks and in the commercial paper market while demands in the long-term market have been exceptionally strong. Since mid-January short-term market interest rates have fallen substantially further, and yields on long-term securities also have declined. Federal Reserve discount rates were reduced from $7\frac{1}{4}$ to $6\frac{3}{4}$ per cent in early February.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions con-

ductive to cushioning recessionary tendencies and stimulating economic recovery, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with more rapid growth in monetary aggregates over the months ahead than has occurred in recent months.

Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Coldwell, Holland, Kimbrel, Mitchell, Wallich, and Winn. Votes against this action: None.

Absent and not voting: Mr. Sheehan.

2. Amendment to Foreign Currency Directive

At this meeting the Committee amended paragraph 2(c) of the foreign currency directive to delete the word "Special" from the phrase "Special Manager" wherever the phrase appears in that paragraph. In other actions at the meeting the Committee had approved a realignment of personnel who supervise System open market operations at the Federal Reserve Bank of New York under the Committee's direction.¹ The realignment—which followed acceptance of the resignation of the incumbent Special Manager in connection with his planned retirement from the New York Bank—involved, among other things, the elimination of the position of Special Manager for Foreign Currency Operations and the assignment of responsibility for the conduct of open market operations in foreign currencies, as well as in domestic securities, to the Manager of the System Open Market Account. The amendment to the foreign currency directive was made to conform to these changes.

Votes for this action: Messrs. Burns, Hayes, Black, Bucher, Clay, Coldwell, Holland, Kimbrel, Mitchell, Sheehan, Wallich, and Winn. Votes against this action: None.

¹Revisions in the Committee's Rules of Organization and Rules of Procedure made for this purpose were published in the *Federal Register* for Mar. 7, 1975.

3. Amendment to Authorization for Domestic Open Market Operations

On March 10 the Committee members voted to amend a provision of paragraph 2 of the authorization for domestic open market operations to raise from \$1 billion to \$2 billion the limit on System holdings of special short-term certificates of indebtedness purchased directly from the Treasury. With this amendment, paragraph 2 reads as follows:

The Federal Open Market Committee authorizes and directs the Federal Reserve Bank of New York, or, under special circumstances, such as when 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 of $\frac{1}{4}$ of 1 per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchases, and provided further that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed \$2 billion.

Votes for this action: Messrs. Burns, Hayes, Baughman, Coldwell, Eastburn, Holland, Mayo, Mitchell, and Sheehan. Votes against this action: None.

Absent and not voting: Messrs. Bucher, MacLaury, and Wallich.

This action was taken on the recommendation of the Account Manager, who had advised that current projections of Treasury balances had indicated that temporary cash low points in mid-March and again in mid-April might require special borrowing as high as \$500 million to \$700 million. In view of the day-to-day volatility in the Treasury's account, and in estimates of changes in that account, the Manager had recommended the increase of the limit, with the understanding that he would recommend restoration of the \$1 billion limit as soon as it appeared reasonable to do so.

MEETING HELD ON MARCH 18, 1975

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services was continuing to fall sharply in the first quarter of 1975, that the rise in prices was moderating, and that nominal GNP was declining. Staff projections, like those of a month earlier, suggested that real economic activity would recede further in the second quarter and that price increases would continue to moderate; they also suggested that activity would turn up later in the year.

In February retail sales had risen slightly, according to the advance estimate. Largely because of continuing efforts by business to liquidate inventories, however, cutbacks in production were again substantial and widespread. Curtailments in employment also were substantial, particularly in manufacturing establishments, and the factory workweek was reduced sharply. Although unemployment rates increased for adult males and heads of households, the over-all rate was unchanged, at 8.2 per cent, as the civilian labor force declined sharply.

The advance in the index of average hourly earnings for private nonfarm production workers accelerated somewhat in February, but it remained considerably less rapid than in the spring and summer of last year. Wholesale prices of industrial commodities again increased moderately—although the rise in prices of both consumer and producer finished goods slowed—and wholesale prices of farm and food products declined sharply further. In January, as in December, the increase in the consumer price index had not been so large as in most months in 1974.

Staff projections suggested that the decline in real GNP would not be nearly so sharp in the second quarter as in the first, in large part because of the behavior of business inventories; it was anticipated that inventories, after shifting from heavy accumulation in the fourth quarter of 1974 to substantial liquidation in the current quarter, would decline at only a moderately faster pace in the

second quarter. The extent of the inventory liquidation expected in the first half—along with the improved conditions in credit markets and the stimulative fiscal measures in prospect—strengthened the probabilities of an upturn in economic activity in the second half.

Exchange rates for the dollar against leading foreign currencies—which had rallied in early February, owing in part to official intervention purchases of dollars—declined during the remainder of the month. However, the dollar strengthened again in early March, as short-term interest rates abroad continued to decline relative to rates in the United States and as market attitudes toward the dollar were improved somewhat by, among other things, moderation of the rise in U.S. prices. In January the U.S. foreign trade deficit had been only moderately above the rate in the fourth quarter of 1974, despite a large bulge in recorded imports of oil in advance of the February 1 increase of \$1 per barrel in import fees. Net outflows of capital reported by banks continued large as foreigners drew down deposits in U.S. offices.

Total loans and investments at U.S. commercial banks grew very little from the end of January to the end of February. Outstanding bank loans to business declined, as business demands for short-term credit remained weak both at banks and in the commercial paper market. Consumer loans at banks also declined, while real estate loans edged up. Bank holdings of U.S. Government securities expanded sharply.

The narrowly defined money stock (M_1)—which had expanded at an annual rate of about 4.5 per cent in the fourth quarter of 1974 and then had declined at a rate of about 9 per cent in January—grew at a rate of about 7 per cent in February. Net inflows of consumer-type time and savings deposits to banks and nonbank thrift institutions were particularly large, and broader measures of the money stock (M_2 and M_3) increased at substantial rates. Banks reduced the outstanding volume of large-denomination CD's and Euro-dollar borrowings, reflecting the growth in demand deposits and in time deposits other than CD's as well as the weakness in loan demand.

System open market operations since the February 19 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with more rapid growth

in monetary aggregates over the months ahead than had occurred in recent months, while taking account of developments in domestic and international financial markets. Accordingly, operations had been directed toward a gradual further easing in bank reserve and money market conditions. The Federal funds rate, which had averaged $6\frac{1}{4}$ per cent in the statement week ending February 19, had declined to about $5\frac{1}{2}$ per cent in the days preceding this meeting.

Private short-term market interest rates declined a little further over the inter-meeting period, in response to the easing in money market conditions and the weakening in private demands for short-term credit, but the declines were small, as market participants apparently came to expect that money market conditions would not ease much further in the near future. Treasury bill rates rose somewhat over the period despite strong demands for bills because the Treasury had enlarged the supply in the weekly and monthly auctions. On the day before this meeting the market rate on 3-month Treasury bills was 5.39 per cent, compared with 5.32 per cent on the day before the last meeting. Effective March 10, Federal Reserve discount rates were reduced from $6\frac{3}{4}$ to $6\frac{1}{4}$ per cent at 10 Reserve Banks; shortly thereafter, rates were reduced at the remaining 2 Banks.

Yields on longer-term bonds increased during the inter-meeting period, in response to continuation of a large volume of offerings. On February 24 the Treasury announced that over the period to mid-April it would raise about \$7 billion in new cash by auctioning coupon issues. Public offerings of corporate bonds remained heavy in February, and a substantial increase was in prospect for March. Actual and prospective offerings of State and local government issues during March and April also were large; in addition, the market for such securities was being adversely affected by the financial problems of a major State corporation. In the home mortgage market, yields declined somewhat further.

The Committee decided that the economic situation and outlook called for more rapid growth in monetary aggregates over the months ahead than had occurred in recent months. A staff analysis suggested that the demand for money would be weak in the near term—in association with the expected weakness in economic activity—and that money market conditions would have to ease

slightly further in the period immediately ahead if M_1 were to grow at a rate consistent with the Committee's longer-run objectives for the monetary aggregates. Some further increase in net inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions was anticipated, in response to lower short-term interest rates. While private demands for short-term credit were likely to remain weak, the Treasury would be borrowing sizable amounts of new cash over the months ahead.

The Committee decided that growth in M_1 and M_2 over the March–April period at annual rates within ranges of tolerance of 5 to $7\frac{1}{2}$ per cent and 8 to 10 per cent, respectively, would be consistent with its longer-run objectives for the monetary aggregates. The members concluded that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of $3\frac{1}{2}$ to $5\frac{1}{2}$ per cent. They agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion in a range of $4\frac{3}{4}$ to $5\frac{3}{4}$ per cent, if necessary, in the course of seeking monetary growth rates within the ranges specified. The members also agreed that in the conduct of operations, account should be taken of developments in domestic and international financial markets.

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

The information reviewed at this meeting suggests that real output of goods and services is continuing to fall sharply in the current quarter. In February industrial production and employment declined substantially further. The unemployment rate was unchanged, at 8.2 per cent, as the civilian labor force declined sharply. Average wholesale prices of industrial commodities rose moderately again in February, and prices of farm and food products declined sharply further. The advance in average wage rates, although large, remained well below the increases of last spring and summer.

The foreign exchange value of the dollar declined in February, but it strengthened somewhat in early March, as short-term interest rates abroad fell further and as market attitudes toward the dollar improved somewhat. In January the U.S. foreign trade deficit was only moderately above the rate in the fourth quarter of 1974 despite a large bulge in recorded imports of oil. Net outflows of capital reported by banks continued large as foreigners withdrew deposits.

The narrowly defined money stock, which had declined sharply in January, expanded considerably in February, and broader measures of the money stock grew at substantial rates. Net inflows of consumer-type time and savings deposits were particularly large. Large-denomination CD's outstanding contracted in February and total bank credit showed little net change. Business demands for short-term credit remained weak, both at banks and in the commercial paper market, while demands in the long-term market continued exceptionally strong. Since mid-February short-term market interest rates have declined a little while longer-term yields have risen. Federal Reserve discount rates were reduced from 6¾ to 6¼ per cent in early March.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to stimulating economic recovery, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with more rapid growth in monetary aggregates over the months ahead than has occurred in recent months.

Votes for this action: Messrs. Burns, Hayes, Baughman, Coldwell, Holland, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: Messrs. Bucher, Eastburn, and Sheehan.

Messrs. Bucher, Eastburn, and Sheehan dissented from this action because they believed that the economic situation and outlook together with recent slow growth in the monetary aggregates called for more aggressive efforts in the near term to achieve the Committee's longer-run objectives for the aggregates. In particular, they favored higher upper limits on the 2-month ranges of tolerance for the monetary aggregates and a lower inter-meeting range for the Federal funds rate than adopted by the Committee.

Subsequent to the meeting, on March 27, the available data suggested that in the March–April period the annual rates of growth in both M_1 and M_2 would be above the upper limits of the ranges of tolerance that had been specified by the Committee. During the

latest statement week the Federal funds rate had averaged about 5½ per cent. In light of the behavior of the aggregates, the System Account Manager would, under normal circumstances, have permitted the weekly average Federal funds rate to rise to the upper limit of its range of tolerance—namely, 5¾ per cent. However, members of the Committee—with the exception of Mr. Sheehan—concurred in the Chairman’s recommendation of March 27 that, in view of the weakness in the economy and of the sensitive conditions in financial markets, particularly bond markets, the Manager be instructed to treat 5½ per cent as the approximate upper limit for the weekly average funds rate for the time being. Mr. Sheehan did not concur because he believed that, in light of past shortfalls in monetary growth and of sensitive conditions in the bond market, the Committee should continue its easing posture by gradually reducing the funds rate.

2. Authorization for Domestic Open Market Operations

On March 10 Committee members had voted to amend a provision of paragraph 2 of the authorization for domestic open market operations to raise from \$1 billion to \$2 billion the limit on System holdings of special short-term certificates of indebtedness purchased directly from the Treasury. This action had been taken on the recommendation of the Account Manager, who had advised that he would recommend restoration of the \$1 billion limit as soon as it appeared reasonable to do so. In view of the likelihood that the higher limit would be required from time to time over coming months, the Committee voted at today’s meeting to maintain the limit at \$2 billion for a period of 1 year, unless in the interim the Committee decided otherwise.

Votes for this action: Messrs. Burns, Hayes, Baughman, Bucher, Coldwell, Eastburn, MacLaury, Mayo, Mitchell, Sheehan, and Wallich.
Vote against this action: Mr. Holland.

Mr. Holland dissented from this action because he preferred to tailor the ceiling more closely to changing needs on a month-to-month basis.

3. Review of Continuing Authorizations

This being the first meeting of the Federal Open Market Committee following the election of new members from the Federal Reserve Banks to serve for the year beginning March 1, 1975, and their assumption of duties, the Committee followed its customary practice of reviewing all of its continuing authorizations and directives. The Committee reaffirmed the Authorization for Domestic Open Market Operations, the Authorization for Foreign Currency Operations, and the Foreign Currency Directive in the forms in which they were presently outstanding.

Votes for these actions: Messrs. Burns, Hayes, Baughman, Bucher, Coldwell, Eastburn, Holland, MacLaury, Mayo, Mitchell, Sheehan, and Wallich.
Votes against these actions: None.

MEETING HELD ON APRIL 14–15, 1975¹

Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services had continued to fall sharply in the first quarter of 1975, that the rise in prices had moderated, and that nominal GNP had declined. Staff projections suggested that real economic activity would recede only a little further in the second quarter and would turn up later in the year, and that the rise in prices would continue to moderate.

In March economic activity continued to decline but at a less rapid pace than in the immediately preceding months. Decreases in both industrial production and nonfarm employment, although still substantial, were not so large as in the 4 months from November through February. The rate of unemployment increased from 8.2 to 8.7 per cent, as the civilian labor force expanded after having declined sharply in February. Total retail sales were estimated to have changed little in March; although sales of automobiles declined following termination of price rebates, the reduction was offset by a further increase in sales of other consumer items. In the first quarter as a whole, total sales were appreciably higher than in the fourth quarter of 1974, and it appeared that inventory liquidation at all levels of business had been substantial.

The advance in the index of average hourly earnings for private nonfarm production workers accelerated in March, but over the first quarter it was less rapid than during the spring and summer of 1974. The wholesale price index declined in March for the fourth consecutive month, as prices of farm and food products fell sharply

¹This meeting was held over a 2-day period, beginning on the afternoon of April 14.

further and prices of industrial commodities increased only slightly. In February, as in December and January, the rise in the consumer price index had not been so large as in most months in 1974.

In late March the President signed the Tax Reduction Act of 1975, which provided for rebates of 1974 personal income taxes and for reductions in both personal and corporate income taxes in 1975. New withholding schedules for personal income tax payments would take effect May 1. The Act also provided for one-time cash payments to recipients of social security benefits and a further lengthening of the benefit period for payment of unemployment compensation.

Staff projections suggested that in the second quarter the decline in real GNP would be considerably smaller than had been expected 4 weeks earlier and that nominal GNP would turn up. In large part, the improvement in the outlook for the second quarter reflected the expectation that inventory liquidation, while remaining rapid, would moderate from the exceptional pace now estimated for the first quarter. It was anticipated that business fixed investment would decline further, but that personal consumption expenditures would expand slightly in real terms and that residential construction would increase.

Exchange rates for the dollar against leading foreign currencies had risen since early March, as short-term interest rates abroad continued to decline relative to rates in the United States, and as market attitudes toward the dollar improved in response to indications of moderation in the rise in U.S. prices and of improvement in the U.S. foreign trade balance. For the first 2 months of the year the balance was in surplus; compared with fourth-quarter rates, exports of agricultural commodities were up and imports of commodities other than fuels were down. Moreover, net outflows of capital reported by banks—which had continued large in February—apparently diminished in March. On April 9 the Board of Governors announced a reduction, from 8 to 4 per cent, in reserve requirements on foreign borrowings by member banks.

Total loans and investments at U.S. commercial banks expanded relatively little from the end of February to the end of March, and virtually all of the expansion reflected increases in bank holdings of Treasury securities and in loans to securities dealers. Outstanding loans to businesses declined further; business demands

for short-term credit remained weak both at banks and in the commercial paper market.

The narrowly defined money stock (M_1)² expanded substantially in March, in part because demand deposits were increased by accelerated distribution of Federal tax refunds. Net inflows of consumer-type time and savings deposits to banks remained strong and those to nonbank thrift institutions were extremely large, in part because of the tax refunds but mainly because of relatively attractive interest rates available on such deposits. Consequently, growth in broader measures of the money stock (M_2 ³ and M_3 ⁴) was rapid. Over the first quarter M_1 , M_2 , and M_3 were estimated to have expanded at annual rates of 3.9, 8.5, and 10.2 per cent, respectively. In March, as in February, banks reduced the outstanding volume of their large-denomination CD's in response to the growth in other deposits and the weakness in loan demand. The bank credit proxy over the first quarter grew at an annual rate of 3.2 per cent.⁵

System open market operations after the March 18 meeting had been guided initially by the Committee's decision to seek bank reserve and money market conditions consistent with more rapid growth in monetary aggregates over the months ahead than had occurred in recent months, while taking account of developments in domestic and international financial markets. In the first statement week after the meeting, the System purchased a substantial volume of Treasury coupon and Federal agency issues in the course of reserve-supplying operations undertaken to offset the effects of a sharp rise in Treasury balances at Reserve Banks.

On March 27 available data suggested that in the March–April period the annual rates of growth in both M_1 and M_2 would be above the upper limits of the ranges of tolerance that had been specified by the Committee. During the previous statement week the Federal funds rate had averaged about 5½ per cent. In light

²Private demand deposits plus currency in circulation.

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

⁴ M_2 plus time and savings deposits at mutual savings banks and at savings and loan associations.

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

of the behavior of the aggregates, the System Account Manager would, under normal circumstances, have permitted the weekly average Federal funds rate to rise to the upper limit of its range of tolerance—namely, to $5\frac{3}{4}$ per cent. However, a majority of Committee members concurred in the Chairman's recommendation of March 27 that, in view of the weakness in the economy and of the sensitive conditions in financial markets, particularly the bond markets, the Manager be instructed to treat $5\frac{1}{2}$ per cent as the approximate upper limit for the weekly average funds rate for the time being. The funds rate fluctuated around that level until the statement week ending April 9, when a sharp decline in the Treasury balance supplied a large volume of reserves and the funds rate slipped to about $5\frac{1}{4}$ per cent.

Short-term market interest rates rose somewhat over the inter-meeting period, apparently because of growing expectations that the decline in interest rates was at or near an end for the time being; accelerated growth in the monetary aggregates and stability in the Federal funds rate strengthened the view that the System would not ease money market conditions further, and enactment of the tax reductions made it clear that near-term Treasury financing needs would be enlarged and also strengthened expectations of economic recovery later in the year. At the time of this meeting the market rate on 3-month Treasury bills was 5.53 per cent, compared with 5.39 per cent on the day before the last meeting.

Bond yields, which had turned up before the March meeting, increased further during the inter-meeting period. The bond markets were affected not only by the large volume of current and expected securities offerings but also by concern over the financial positions of some State and local governmental entities. Public offerings of corporate bonds were heavy in March, and a continued large volume was in prospect for April despite many cancellations and postponements of planned issues. Yields on home mortgages declined only slightly further in the primary market and turned up in the secondary market.

The Treasury was expected to announce the terms of its mid-May financing on May 1. Of the maturing issues, \$3.8 billion were held by the public.

At this meeting the Committee reviewed its procedures for specifying desired longer-run growth rates in monetary and credit

aggregates and concluded that at present it should formulate such growth rates for four aggregates— M_1 , M_2 , M_3 , and the bank credit proxy—in terms of ranges for annual periods. It was the consensus of the Committee that growth in these aggregates over the period from March 1975 to March 1976 at rates within the following ranges presently appeared to be consistent with its broad economic objectives: M_1 , 5 to 7½ per cent; M_2 , 8½ to 10½ per cent; M_3 , 10 to 12 per cent; and the bank credit proxy, 6½ to 9½ per cent.⁶ It was understood that these ranges, as well as the particular list of aggregates for which such ranges were specified, were subject to review and modification at subsequent meetings.

In considering current policy, the Committee took note of a staff analysis suggesting that the monetary aggregates would grow at relatively rapid rates in the April–May period if prevailing money market conditions persisted. Relatively rapid growth was expected in large part because of the temporary effects of large tax rebates scheduled to begin in May, at a time when the demand for money was also being influenced by the continuing impact of earlier declines in short-term interest rates and by the rise in nominal GNP anticipated for the second quarter. Any further upward pressures on market interest rates most likely would be confined to the market for Treasury securities. It was expected that business, mortgage, and consumer demands for bank credit would remain relatively weak.

Against the background of this analysis and of its longer-run objectives for monetary and credit aggregates, the Committee decided to seek growth in M_1 and M_2 over the April–May period at annual rates with ranges of tolerance of 6½ to 9 per cent and 9½ to 11¾ per cent, respectively. The members concluded that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a

⁶Mr. Eastburn preferred to focus on the aggregates that he believed were most closely linked with economic activity— M_1 , M_2 , and perhaps the bank credit proxy—and he favored employing ranges not more than one percentage point in width. In Mr. MacLaury's view, the outlook for the economy over the coming year—specifically the expected patterns of performance of employment and prices—called for somewhat faster growth of the aggregates over the year, indexed by a 7 per cent growth rate for M_1 .

range of 1½ to 4¼ per cent. They agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion in a range of 4¾ to 5¾ per cent, if necessary in the course of seeking monetary growth rates within the ranges specified. The members also agreed that in the conduct of operations, account should be taken of the forthcoming Treasury financing and of developments in domestic and international financial markets.

The following domestic 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 fell sharply in the first quarter. However, retail sales strengthened during the quarter, and the rate of decline in over-all activity has slowed in recent weeks. In March industrial production and employment declined less than they had on average in the preceding 4 months, but the unemployment rate increased from 8.2 to 8.7 per cent, as the civilian labor force grew. Average wholesale prices of industrial commodities rose little in March and prices of farm and food products declined sharply. The advance in average wage rates during the first quarter was large, but it was still below the increases of last spring and summer.

The prospect of an upturn in economic activity has been strengthened by enactment of the Tax Reduction Act of 1975, which will be adding soon to growth in disposable personal income.

The foreign exchange value of the dollar has risen since early March, as short-term interest rates abroad have declined further and market attitudes toward the dollar have continued to improve. In January–February the U.S. foreign trade balance was in surplus, as agricultural exports reached a new high and the volume of imports other than fuels declined. Net outflows of funds through banks continued large in February but appear to have diminished in March. In early April reserve requirements on foreign borrowings by member banks were reduced from 8 to 4 per cent.

The narrowly defined money stock rose moderately on balance over the first quarter, while broader measures of the money stock expanded more rapidly. Growth was substantial in March, apparently in part because of the effects of accelerated tax refunds on deposits at banks and nonbank thrift institutions. Business demands for short-term credit remained weak, both at banks and in the commercial paper market, while demands in the long-term market continued exceptionally strong. Since mid-March short-term

market interest rates have increased somewhat and longer-term yields have risen considerably further.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to stimulating economic recovery, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing and of developments in domestic and international financial markets, the Committee seeks to achieve bank reserve and money market conditions consistent with somewhat more rapid growth in monetary aggregates over the months ahead than has occurred on average in recent months.

Votes for this action: Messrs. Burns, Hayes, Baughman, Coldwell, Holland, MacLaury, Mayo, Mitchell, and Wallich. Vote against this action: Mr. Eastburn. Absent and not voting: Messrs. Bucher and Sheehan.

Mr. Eastburn dissented from this action because he preferred to retain the previous 5½ per cent upper limit on the inter-meeting range for the Federal funds rate. While he believed that firmer money market conditions might prove to be necessary later on in the year, he thought any such firming would be inappropriate at this time, given the sensitive state of financial markets, the continued weakness in the economy, and his preference for seeking more rapid growth in the monetary aggregates in the near term than would be desirable over the longer run.

MEETING HELD ON MAY 20, 1975

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services—which had fallen sharply in the fourth quarter of 1974 and the first quarter of 1975—was declining much less rapidly in the current quarter and that the rise in prices was moderating further. Staff projections, like those of 5 weeks earlier, suggested that real economic activity would turn up later in the year and that the rise in prices would continue to slow.

The pace of decline in industrial production, which had been less rapid in March than in the preceding 4 months, moderated further in April. Nonfarm payroll employment changed little and total employment rose, but the unemployment rate increased further, from 8.7 to 8.9 per cent, as the labor force continued to grow at a considerable pace. According to the advance report, retail sales had risen in April, despite a further decline in the number of new cars sold.

The index of average hourly earnings for private nonfarm production workers was unchanged in April, after having risen sharply in March; over the first 4 months of the year the rate of advance in the index was considerably less rapid than that in the second half of 1974. Average wholesale prices of industrial commodities changed little in April, as in March, while wholesale prices of farm and food products increased sharply, following 5 months of large decreases. In March the rise in the consumer price index had slowed further from the pace in the first 2 months of the year.

Staff projections still suggested that in the current quarter the decline in real GNP would be small and that nominal GNP would turn up, although expectations now were for only a slight rather than a substantial increase in residential construction. It was still anticipated that inventory liquidation would moderate from the exceptional pace in the first quarter and that personal consumption expenditures would expand but that business fixed investment

would decline further. The projected upturn in real GNP in the second half reflected expectations that growth in consumption expenditures would accelerate in response to expansive fiscal policy measures, that the upturn in residential construction would gain momentum, and that the pace of inventory liquidation would moderate further.

Since mid-April the average exchange value of the dollar against leading foreign currencies had receded somewhat, but it was still slightly above the low in early March. The U.S. foreign trade balance—which had been in large deficit in the last three quarters of 1974—shifted into substantial surplus in the first quarter of this year, in considerable part because the volume of imports was reduced by the decline in business activity in this country. Net outflows of funds through banks expanded substantially in the first quarter, as outstanding loans to foreigners continued to increase while liabilities to foreigners declined.

Total loans and investments at U.S. commercial banks continued to expand at a slow pace from the end of March to the end of April. Outstanding loans to businesses declined further, as business demands for credit remained weak both at banks and in the commercial paper market; outstanding loans to nonbank financial institutions, securities dealers, and consumers also declined, while real estate loans increased by only a modest amount. As in February and March, banks increased their holdings of U.S. Government securities considerably.

Growth in both the narrowly defined and the more broadly defined money stock (M_1 and M_2)—which had been substantial in March—was moderate in April, as disbursements of income tax refunds slowed to about the pace of a year earlier. The measure of the money stock that includes deposits at nonbank thrift institutions (M_3) grew more rapidly; although net inflows to thrift institutions subsided from the extremely high rates in March, they remained substantial. In April, as in the preceding 2 months, banks reduced the outstanding volume of large-denomination CD's in response to the growth in other deposits and to the continued weakness in loan demand, and the bank credit proxy grew at a relatively slow pace.

On May 1 the Treasury announced that it would auction up to \$5 billion of notes and bonds, of which \$3.8 billion represented

refunding of publicly held notes that were to mature on May 15. In auctions on May 6, 7, and 8, respectively, the Treasury sold \$2.75 billion of 3¼-year notes at an average price to yield 7.7 per cent, \$1.5 billion of 7-year notes at an average price to yield 8.0 per cent, and \$750 million of 30-year bonds at an average price to yield 8.3 per cent. The Treasury also announced on May 1 that its over-all borrowing needs for the current fiscal year would be \$5 billion less than had been previously stated, owing to larger-than-expected receipts of taxes.

System open market operations since the April 14–15 meeting had been guided by the Committee's decision to seek bank reserve and money market conditions consistent with somewhat more rapid growth in monetary aggregates over the months ahead than had occurred on average in recent months, while taking account of the forthcoming Treasury financing and of developments in domestic and international financial markets. The monetary aggregates had been expected to grow at relatively rapid rates in the April–May period—because of the large volume of tax rebates scheduled to begin in May, of the rise in nominal GNP anticipated for the second quarter, and of the lagged effects on the demand for money of earlier declines in short-term interest rates—and operations initially had been directed toward maintaining about the prevailing bank reserve and money market conditions. However, data that became available subsequently suggested that in the April–May period the growth rate of M_1 would be near the lower limit of the range of tolerance that had been specified by the Committee and growth in M_2 would be below its tolerance range. Accordingly, operations were directed toward achieving some easing in bank reserve and money market conditions, although the System proceeded cautiously in order to avoid exaggerated market effects during a period of heavy Treasury financing. In the days preceding this meeting the Federal funds rate was about 5½ per cent, compared with a rate of about 5½ per cent shortly before the April meeting.

Short-term market interest rates—which had risen a little between mid-March and mid-April—declined somewhat in early May, reflecting the Treasury's announcement of reduced borrowing needs, the easing in money market conditions, and the continued weakness in business demands for short-term credit. On the day before this meeting the market rate on 3-month Treasury bills was 5.11 per

cent, compared with 5.53 per cent at the time of the April meeting. Effective May 16, Federal Reserve discount rates were reduced from $6\frac{1}{4}$ to 6 per cent at 10 Reserve Banks; shortly thereafter, rates were reduced at the remaining 2 Banks.

Yields on longer-term securities rose in late April but turned down after the beginning of May; over the inter-meeting period they changed little. The volume of public offerings of corporate bonds in April, although smaller than in March, was still large, and an increase was in prospect for May. Offerings of State and local government issues in April and the calendar for May also were heavy. Yields on home mortgages rose somewhat during April, after having declined persistently since September of last year.

At its previous meeting, the Committee had agreed that growth in the monetary and credit aggregates on average over the period from March 1975 to March 1976 at rates within the following ranges presently appeared to be consistent with its broad economic objectives: M_1 , 5 to $7\frac{1}{2}$ per cent; M_2 , $8\frac{1}{2}$ to $10\frac{1}{2}$ per cent; M_3 , 10 to 12 per cent; and the bank credit proxy, $6\frac{1}{2}$ to $9\frac{1}{2}$ per cent. It was understood that these ranges, as well as the particular list of aggregates for which such ranges were specified, were subject to review and modification at subsequent meetings. It also was understood that from month to month the rates of growth of the various aggregates might well fall outside ranges contemplated for annual periods as a result of short-run factors.

At this meeting the Committee took note of a staff analysis indicating that the rate of growth of the monetary aggregates would probably be increased temporarily during May and June by the tax rebates, totaling about \$8 billion, which the Treasury would pay out in those months. It seemed likely that a sizable portion of the rebates would be held for a time in demand balances before being used to acquire assets, repay debt, or increase spending, and that some part would be placed directly in savings accounts.

To allow for the expected temporary bulge in money holdings, the Committee agreed that relatively rapid growth in M_1 and M_2 over the May–June period—at annual rates within ranges of tolerance of 7 to $9\frac{1}{2}$ per cent and 9 to $11\frac{1}{2}$ per cent, respectively—would be acceptable. Such growth rates were thought likely to involve growth in reserves available to support private nonbank

deposits (RPD's) at a rate within a range of 1½ to 4 per cent, and they were expected to be consistent with a weekly average Federal funds rate in a range of 4½ to 5½ per cent.

In the course of the Committee's discussion a number of members expressed the view that upward pressures on interest rates would be particularly undesirable at present, in light of the sensitive state of financial markets and of uncertainties with respect to the timing and strength of the economic recovery that now appeared to be in process of developing. There was no sentiment for aggressive easing operations for the purpose of reducing market interest rates further. Some members urged, however, that the System should be prepared to respond promptly should the monetary aggregates be unexpectedly weak.

The Committee decided that open market operating decisions in the period until the next meeting should be based to a greater extent than usual on the state of financial markets, with the objective of maintaining money market conditions about like those now prevailing so long as the monetary aggregates appeared to be growing at rates within acceptable ranges of tolerance. The following domestic 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—after having fallen sharply for two quarters—is declining much less rapidly in the current quarter. In April the pace of the decline in industrial production moderated considerably further, and total employment rose. However, the unemployment rate increased again, from 8.7 to 8.9 per cent, as the civilian labor force increased considerably. Average wholesale prices of industrial commodities changed little in April, as in March; prices of farm and food products rose sharply, following several months of large decreases. The advance in average wage rates so far this year has been considerably less rapid than the increase during the second half of 1974.

The foreign exchange value of the dollar has declined somewhat since mid-April, but it is still above the low of early March. U.S. imports fell sharply in the first quarter, and the foreign trade balance was in substantial surplus, in contrast to the deficits of preceding quarters. Net outflows of funds through banks were large in the first quarter, as loans to foreigners continued to increase while liabilities to foreigners declined.

Both M_1 and M_2 grew moderately in April, but M_3 grew more rapidly as inflows of deposits to nonbank thrift institutions remained substantial. Business demands for short-term credit remained weak, both at banks and in the commercial paper market, while demands in the long-term market continued strong. Since mid-April short-term market interest rates have declined somewhat. Most longer-term yields have changed little on balance, and mortgage rates have risen. Federal Reserve discount rates were reduced from $6\frac{1}{4}$ to 6 per cent in mid-May.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to stimulating economic recovery, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain about the prevailing money market conditions over the period immediately ahead, provided that monetary aggregates generally appear to be growing within currently acceptable short-run ranges of tolerance.

Votes for this action: Messrs. Burns, Hayes, Baughman, Bucher, Coldwell, Eastburn, Holland, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: None.

Absent and not voting: Mr. Sheehan.

2. Amendment to Authorization for Domestic Open Market Operations

On April 30, 1975, Committee members voted to increase from \$3 billion to \$4 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 May 20, 1975.

Votes for this action: Messrs. Burns, Hayes, Coldwell, Eastburn, Holland, MacLaury, Mayo, Mitchell, Wallich, and Francis. Votes against this action: None. Abstention: Mr. Sheehan.

Absent and not voting: Messrs. Bucher and Baughman. (Mr. Francis voted as alternate for Mr. Baughman.)

This action was taken on recommendation of the System Account Manager. The Manager advised that large-scale securities purchases had been necessary to carry out the Committee's objectives in the period since the previous meeting because an extremely large volume of reserves had been absorbed by a rise in the Treasury's balances at Reserve Banks to record levels, and that a temporary increase in the leeway for System purchases appeared desirable in light of the prospective near-term needs to supply reserves.

At this meeting, the Committee decided to maintain the \$4 billion limit for the period through the close of business on June 17, 1975. This action was taken on the recommendation of the Deputy Manager for Domestic Operations, who advised that an expected sharp decrease in Treasury balances at the Reserve Banks in the period ahead might necessitate an unusually large volume of securities sales by the System to absorb reserves.

Votes for this action: Messrs. Burns, Hayes, Baughman, Bucher, Coldwell, Eastburn, Holland, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: None.

Absent and not voting: Mr. Sheehan.

MEETING HELD ON JUNE 16-17, 1975¹

1. Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services—which had fallen sharply during the two preceding quarters—had leveled off in the second quarter of 1975 and that the rise in prices had moderated further. Staff projections continued to suggest that real economic activity would expand in the second half of the year and that the rise in prices would continue to slow somewhat further.

In May retail sales increased strongly, most likely in response to the disbursement of a large volume of rebates on Federal income tax liabilities for 1974 and to a reduction in current income tax withholdings. Industrial production declined slightly further, as producers and distributors in many industries continued their efforts to liquidate inventories; total business inventories had declined appreciably in both March and April. Nonfarm payroll employment increased in May, after having changed little in April, and total employment advanced for the second consecutive month. Nevertheless, the unemployment rate rose further, from 8.9 to 9.2 per cent, as the civilian labor force continued to grow at a rapid pace.

The index of average hourly earnings for private nonfarm production workers rebounded in May, after having declined slightly in April, but over the first 5 months of the year the rate of advance in the index was considerably less rapid than the rate during the second half of 1974. Average wholesale prices of industrial commodities rose slightly in May—by about as much as over the preceding 2 months—while prices of farm and food products increased moderately further. In April the rise in the consumer price index had picked up, but the average rise over the first 4 months of the year had remained well below the pace during 1974.

Staff projections for the second half of 1975 suggested moderate

¹This meeting was held over a 2-day period, beginning on the afternoon of June 16.

recovery in real output and substantial gains in nominal GNP. It was anticipated that the recovery would be spurred by rapid growth in consumption expenditures in response to the expansive income tax measures; by increases in residential construction; and by a considerable slowing in the rate of business inventory liquidation. On the other hand, it was anticipated that business fixed investment would decline somewhat further in real terms and that, as a result of the recovery in business activity in this country, imports would rise at a faster pace than exports.

Since mid-May the average exchange value of the dollar against leading foreign currencies had changed little in relatively light trading. In April the U.S. foreign trade balance remained in surplus; however, the surplus was well below the first-quarter rate, reflecting a substantially lower rate of exports. Banks' liabilities to foreigners rose more than claims in April, resulting in a small net inflow of funds compared with a large net outflow in the first quarter of the year.

Total loans and investments at U.S. commercial banks continued to expand at a slow pace during May. Outstanding loans to business declined markedly further—as did the outstanding volume of commercial paper issued by nonfinancial businesses—in association with inventory liquidation and a continued large volume of corporate financing in the capital market. As in the preceding 3 months, banks added substantially to their holdings of U.S. Government securities.

Growth in deposits was exceptionally strong at banks and at nonbank thrift institutions in May, reflecting in part the large volume of income tax rebates disbursed during the month, and M_1 , M_2 , and M_3 all increased substantially. Banks continued to reduce the outstanding volume of large-denomination CD's in response to the growth in other deposits and to the continued weakness in loan demand, and the bank credit proxy increased by only a small amount.

Interest rates in private short-term markets had changed little over the period since mid-May. Market rates on Treasury bills also changed little in the latter part of May, but they declined in early June, partly in response to the seasonal reduction in the supply of bills in prospect for the second half of the month. At the time of this meeting the market rate on 3-month Treasury bills was 4.88

per cent, compared with 5.11 per cent on the day before the May meeting.

Yields on longer-term securities changed little in late May—despite a continued heavy volume of corporate financing—and then declined considerably in early June, in part because the prospective size of Treasury financing through July was not so large as had been expected. Public offerings of corporate bonds expanded to a near-record volume in May, in part because of the marketing of some issues that had been postponed, and a continued large volume was in prospect for June. Offerings of State and local government issues in May and the calendar for June also were heavy. Yields on home mortgages eased in May, after having risen somewhat in April.

System open market operations since the May 20 meeting had been guided by the Committee's decision to seek to maintain about the prevailing money market conditions over the period immediately ahead, provided that monetary aggregates generally appeared to be growing at rates within acceptable ranges of tolerance. The Federal funds rate, which had been about $5\frac{1}{8}$ per cent in the days before the May meeting, remained within a range of 5 to $5\frac{1}{4}$ per cent. In the second week of June, just a few days before this meeting, available data suggested that over the May–June period both M_1 and M_2 would grow at rates well above the specified ranges of tolerance. Consequently, the System sought some tightening of bank reserve and money market conditions, and the Federal funds rate rose into a range of $5\frac{1}{4}$ to $5\frac{1}{2}$ per cent.

At this meeting the Committee reviewed the 12-month ranges for rates of growth in the monetary and credit aggregates on the average over the period from March 1975 to March 1976 that it had specified 2 months earlier at the April meeting. The members agreed that it would be consistent with the Committee's broad economic objectives if growth within the same percentage ranges were to be realized on the average over the 12-month period to June 1976 from the currently estimated levels for June 1975.² The ranges were as follows: M_1 , 5 to $7\frac{1}{2}$ per cent; M_2 , $8\frac{1}{2}$ to $10\frac{1}{2}$

²At its meeting on July 15 the Committee decided that the percentage ranges should apply to the period from the second quarter of 1975 to the second quarter of 1976, rather than from June to June.

per cent; M_3 , 10 to 12 per cent; and the bank credit proxy, $6\frac{1}{2}$ to $9\frac{1}{2}$ per cent. As before, it was understood that these ranges, as well as the particular list of aggregates for which such ranges were specified, were subject to review and modification at subsequent meetings. It also was understood that from month to month the rates of growth of the various aggregates might well fall outside ranges contemplated for annual periods as a result of short-run factors.

In considering current policy, the Committee took note of a staff analysis suggesting that in the months ahead strong expansion in transactions demands for money was likely if the substantial gains projected in nominal GNP materialized. If monetary growth was to be appropriately constrained, it appeared probable that some tightening of bank reserve and money market conditions would need to develop over the weeks immediately ahead.

The staff analysis also suggested that, even with some tightening in bank reserve and money market conditions, the monetary aggregates would grow at relatively rapid rates in the June–July period, in large part because of the temporary effects of income tax rebates and, in the second half of June, of one-time payments to social security recipients. It was anticipated, however, that private short-term credit demands would remain weak, as business firms continued to liquidate inventories and to issue longer-term securities in large volume.

In the course of the Committee's discussion a number of members expressed uncertainty about the extent to which rapid growth in the monetary aggregates was attributable to transitory rather than to fundamental forces affecting the demand for money. No members advocated aggressive operations at this time to tighten bank reserve and money market conditions, and there was some sentiment for continuing about the prevailing money market conditions in the period until the next meeting on the grounds that additional data might indicate that growth in the monetary aggregates was in the process of subsiding. However, some members favored a modest tightening in the period immediately ahead in order to restrain growth in the monetary aggregates, and others were prepared to accept some tightening if it proved to be necessary for that purpose.

At the conclusion of the discussion, the Committee decided that growth in M_1 and M_2 over the June–July period at annual rates

within ranges of tolerance of 6½ to 9½ per cent and 9 to 12 per cent, respectively, would be acceptable. The members concluded that such growth rates would be likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of 5 to 8 per cent. They agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion within a range of 5 to 6 per cent, if necessary, in the course of seeking monetary growth rates within the ranges specified. The members also agreed that, in the conduct of operations, account should be taken of developments in domestic and international financial markets.

The following domestic 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—after having fallen sharply for two quarters—has leveled off in the current quarter. In May retail sales strengthened considerably. Industrial production declined slightly further, but total employment advanced for the second consecutive month. The unemployment rate increased again, from 8.9 to 9.2 per cent, as the civilian labor force rose substantially further. The rise in average wholesale prices of industrial commodities continued to be slow; prices of farm and food products increased moderately further. The advance in average wage rates so far this year has been considerably less rapid than the increase during the second half of 1974.

The foreign exchange value of the dollar has changed little since mid-May. The U.S. foreign trade balance continued in substantial surplus in April, but at a rate much reduced from the first quarter. After large net outflows in the first quarter, there was a small net inflow of funds through banks in April, as liabilities to foreigners rose more than claims.

Growth in M_1 , M_2 , and M_3 was substantial in May, reflecting in part large Federal income tax rebates deposited at both banks and nonbank thrift institutions. Business demands for short-term credit both at banks and in the commercial paper market remained unusually weak, while demands in the long-term market continued very strong. Market interest rates in general changed little during the latter part of May, but since then rates in longer-term markets and on Treasury bills have declined. Mortgage rates have eased over the past month.

In light of the foregoing developments, it is the policy of the

Federal Open Market Committee to foster financial conditions conducive to stimulating economic recovery, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of developments in domestic and international financial markets, 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, Baughman, Eastburn, Holland, MacLaury, Mayo, Mitchell, Wallich, and Debs. Votes against this action: Messrs. Bucher and Coldwell.

Absent and not voting: Mr. Hayes. (Mr. Debs voted as alternate for Mr. Hayes.)

Messrs. Bucher and Coldwell dissented from this action because they believed that a tightening in money market conditions and the associated increase in short-term interest rates would be premature at this time, and they preferred to specify a lower range for the Federal funds rate than that adopted by the Committee. Both stressed the influence of the tax rebates and payments to recipients of social security benefits in bringing about high rates of monetary growth. Mr. Bucher, in addition, thought that primary emphasis should be given to promoting recovery in economic activity, because he believed that as yet there were no clear indications of the forces that would lead the recovery and because he saw no threat of intensified inflationary pressures so long as rates of resource use remained comparatively low.

Subsequent to the meeting, on June 26, the available data suggested that the annual rates of growth in M_1 and M_2 in June would be much more rapid than had appeared likely at the time of the meeting and that growth in both aggregates over the June–July period, therefore, would be substantially above the upper limits of the ranges of tolerance established by the Committee. In the statement week ending June 25 the Federal funds rate averaged 5.72 per cent; in the latest 3 days it had been close to 6 per cent. The System Account Manager was planning to aim for a rate of 6 per cent, the upper limit of the specified range of tolerance.

Against that background and to give the Manager some flexibility, Chairman Burns recommended on June 26 that the upper limit of the funds rate constraint be raised to 6¼ per cent, on the understanding that the additional leeway would be used only in the event that another week's data confirmed excessive strength in the monetary aggregates. Members of the Committee—with the exception of Messrs. Bucher, Holland, and Mitchell—concurred in the Chairman's recommendation.

2. Amendment to Authorization for Domestic Open Market Operations

The Committee amended paragraph 1(c) of the authorization for domestic open market operations to authorize the Federal Reserve Bank of New York to arrange repurchase agreements (RP's) directly with bank dealers. Prior to this action, the Bank had been authorized to arrange RP's with nonbank dealers only. With this amendment, paragraph 1(c) read as follows:

(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 of the types authorized for purchase under 1(b) above, from dealers for the account of the Federal Reserve Bank of New York under agreements for repurchase of such securities, obligations, or acceptances in 15 calendar days or less, at rates that, unless otherwise expressly authorized by the Committee, shall be determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual dealers; provided that in the event Government securities or agency issues covered by any such agreement are not repurchased by the dealer pursuant to the agreement or a renewal thereof, they shall be sold in the market or transferred to the System Open Market Account; and provided further that in the event bankers' acceptances covered by any such agreement are not repurchased by the seller, they shall continue to be held by the Federal Reserve Bank or shall be sold in the open market.

Votes for this action: Messrs. Burns, Baughman, Bucher, Coldwell, Eastburn, Holland, MacLaury, Mayo, Mitchell, Wallich, and Debs. Votes against this action: None.

Absent and not voting: Mr. Hayes. (Mr. Debs
voted as alternate for Mr. Hayes.)

This action was taken on recommendation of a staff committee, which advised that it would usefully broaden the scope of participation in System RP's. The staff committee also reported that experience with determination of interest rates on RP's by competitive bidding—provided for by action of the Committee in April 1972—had been satisfactory.

3. Revision of Guidelines for Operations in Federal Agency Issues

On recommendation of the Manager, the Committee amended number 5 of the guidelines for the conduct of System operations in Federal agency issues to increase the limit on System holdings of any one issue at any one time from 20 to 30 per cent of the amount of the issue outstanding, and to increase the limit on System holdings of the issues of any one agency from 10 to 15 per cent of the amount of outstanding issues of that agency. The Manager had advised that Desk operations in agency issues might soon be inhibited by the existing limits; that flexibility for operations in agency issues might prove especially useful; and that experience gained over the past 3½ years of operations in agency issues had shown that the market was capable of absorbing a larger volume of System purchases without undue impact on yields or other market relationships.

Votes for this action: Messrs. Burns, Baughman, Bucher, Coldwell, Eastburn, MacLaury, Mayo, Mitchell, Wallich, and Debs. Vote against this action: Mr. Holland.

Absent and not voting: Mr. Hayes. (Mr. Debs
voted as alternate for Mr. Hayes.)

Mr. Holland dissented from this action because he was concerned that to date the System had bought but rarely had sold agency issues and because the limits on System holdings of agency issues might more appropriately be raised at a stage of the business cycle when the volume of new agency issues being marketed was large.

MEETING HELD ON JULY 15, 1975

Domestic Policy Directive

The information reviewed at this meeting suggested that real output of goods and services had leveled off in the second quarter of 1975, as consumer spending had continued to strengthen, and that the rise in prices had moderated further. Staff projections for the second half of the year, like those of 4 weeks earlier, suggested that real economic activity would expand and that the rise in prices, on the average, would slow from the pace in the first half.

In June retail sales had expanded somewhat further, according to the advance report, and sales for the second quarter as a whole were up considerably from the first quarter. Industrial production rose slightly in June, following 8 months of decline. Nevertheless, it appeared that producers and distributors in many industries were continuing their efforts to liquidate inventories; total business inventories had declined appreciably in the preceding 4 months. After increasing for 2 months, total employment was stable in June. The calculated unemployment rate declined substantially, but the drop was attributed mainly to seasonal adjustment problems associated with the influx of younger persons into the labor market at the end of the school year.

The advance in the index of average hourly earnings for private nonfarm production workers moderated further from the first to the second quarter of the year. Average wholesale prices of industrial commodities rose somewhat more in June than in the preceding 3 months, mainly because of increases in prices of crude oil and refined petroleum products; over the first half of the year the rise in industrial commodity prices was sharply below the rapid pace in 1974. Wholesale prices of farm and food products declined appreciably in June. In May the rise in the consumer price index had slowed, after a pick-up in April.

Staff projections for the second half of 1975 continued to suggest moderate recovery in real output and substantial gains in nominal

GNP. It was still anticipated that the recovery would be spurred by rapid growth in consumption expenditures in response to the expansive income tax measures, by increases in residential construction, and by a marked slowing in business inventory liquidation from the exceptionally rapid rate in the first half of the year. As before, it was anticipated that business fixed investment would decline somewhat further in real terms and that imports would rise at a faster pace than exports as economic activity expanded in this country.

The average exchange value of the dollar against leading foreign currencies—which had changed little for about 3 months—rose appreciably in late June and early July, in large part as a result of a rise in short-term interest rates on dollar assets relative to comparable rates on assets denominated in major foreign currencies. In May U.S. merchandise imports fell more sharply than exports, and the foreign trade surplus was substantial. Banks' claims on foreigners increased considerably in May while their liabilities to foreigners declined slightly; the result was a sizable net outflow of funds compared with a small net inflow in April.

Total loans and investments at U.S. commercial banks changed little during June. As in the preceding 4 months, total loans declined; outstanding loans to businesses fell sharply further—as did the outstanding volume of commercial paper issued by nonfinancial businesses—in association with continued inventory liquidation and heavy corporate financing in the capital market. Banks again added substantially to their holdings of U.S. Government securities.

Expansion in demand deposits and in consumer-type time and savings deposits at banks and at nonbank thrift institutions—already strong in May—was extremely rapid in June, in part because of Federal income tax rebates and of supplementary social security payments; over the second quarter of the year, M_1 , M_2 , and M_3 grew at annual rates of about 11, 13, and 15 per cent, respectively. Weekly data suggested that the aggregates had begun to weaken late in the month, after completion of the special disbursement by the Treasury.

System open market operations since the June 16–17 meeting 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. Data that had become available soon after the June meeting suggested that in the June–July period the aggregates would grow at rates above the upper limits of the ranges of tolerance that had been specified by the Committee. Therefore, System operations persistently had been directed toward some tightening in bank reserve and money market conditions. In the last 3 days of the statement week ending June 25 the Federal funds rate was close to 6 per cent—the upper limit of the range of tolerance specified at the June meeting—compared with a level between $5\frac{1}{4}$ and $5\frac{1}{2}$ per cent at the time of that meeting.

On June 26 a majority of the members concurred in the Chairman's recommendation that the upper limit of the funds rate constraint be raised to $6\frac{1}{4}$ per cent, on the understanding that the additional leeway would be used only if another week's data confirmed excessive strength in the aggregates. However, data that had become available for the statement week ending July 2, and then for the week ending July 9, suggested that the aggregates had begun to weaken. Accordingly, the System sought no further tightening in bank reserve and money market conditions. For a short time around midyear Federal funds traded above 6 per cent, as a result of special pressures in the market associated with the June 30 statement date for banks and with the Independence Day holiday.

Short-term interest rates had risen appreciably since the June meeting of the Committee, partly in response to the firming in money market conditions. The rise in rates on Treasury bills was exceptionally large, in part because rates had declined earlier in anticipation of a seasonal decline in the supply of bills in late June. At the time of this meeting the market rate on 3-month Treasury bills was 6.03 per cent, up from a low of 4.88 per cent on June 16.

Yields on longer-term Treasury and corporate securities also increased appreciably during the inter-meeting period, in response to the tightening in money market conditions and to exceptionally heavy demands in the capital market. Public offerings of both corporate bonds and State and local government issues expanded to new records in June, and a large volume of offerings was in prospect for July. Moreover, the Treasury auctioned \$1.75 billion

of 4-year notes on June 25 and indicated that it would auction \$1.5 billion of 2-year notes in late July.

The Treasury was expected to announce the terms of its mid-August refunding of July 23. Of the maturing issues, \$4.8 billion were held by the public.

At its previous meeting, the Committee had agreed that growth in the monetary and credit aggregates over the 12 months to June 1976 from the estimated levels for June 1975 within the following ranges would be consistent with its broad economic objectives: M_1 , 5 to 7½ per cent; M_2 , 8½ to 10½ per cent; M_3 , 10 to 12 per cent; and the bank credit proxy, 6½ to 9½ per cent. In view of the erratic movements of monthly figures on money balances—as illustrated by the unexpectedly large rise in monetary aggregates in June—the Committee decided that the percentage ranges should apply to the period from the second quarter of 1975 to the second quarter of 1976, rather than from June to June. As before, it was understood that the ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that from month to month short-run factors might cause the rates of growth of the various aggregates to fall outside the ranges contemplated for annual periods.

In considering current policy, the Committee took note of a staff analysis suggesting that growth in monetary aggregates would slow considerably in July from the extremely rapid pace in May and June associated with the Federal income tax rebates and social security payments. In the course of the Committee's discussion, it was noted that growth in the monetary aggregates in May and June had been appreciably above expected rates, and that bank reserve and money market conditions had been permitted to firm somewhat as a consequence. It was also noted that the economy apparently was in the process of recovering from the recession and that a strengthening in the underlying demands for money and bank credit was in prospect.

In the circumstances, no member advocated operations to ease bank reserve and money market conditions in the period immediately ahead unless the monetary aggregates were considerably weaker than expected, and some suggested that a modest firming might be appropriate at this time. A number of members indicated

that they would prefer to maintain about the prevailing conditions for the time being, in light of the uncertainties about the strength of the economic recovery and of the relatively high levels of market interest rates for the present stage of the cycle. However, these members were prepared to accept some firming in coming weeks if necessary to slow monetary growth substantially from the rapid pace in recent months.

At the conclusion of the discussion, the Committee decided to seek bank reserve and money market conditions over the period immediately ahead about the same as those now prevailing, provided that growth in monetary aggregates appeared to be slowing substantially from the bulge during the second quarter. Specifically, the members agreed that growth in M_1 and M_2 over the July–August period at annual rates within ranges of tolerance of 3 to 5½ per cent and 8 to 10½ per cent, respectively, would be acceptable. Such growth rates were thought likely to involve growth in reserves available to support private nonbank deposits (RPD's) within a range of -2 to $+½$ per cent. The members agreed that in the period until the next meeting the weekly average Federal funds rate might be expected to vary in an orderly fashion within a range of 5½ to 6¾ per cent, depending on the behavior of the monetary aggregates. The members also concluded that, in the conduct of operations, account should be taken of the forthcoming Treasury financing and of developments in domestic and international financial markets.

The following domestic 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 leveled off in the second quarter of the year, as consumer spending continued to strengthen. Activity in residential real estate markets has picked up in recent months. In June industrial production rose slightly, following 8 months of decline. The calculated unemployment rate declined substantially, but this was attributed mainly to problems of seasonal adjustment. Average wholesale prices of industrial commodities rose somewhat more in June than in the preceding 3 months, chiefly because of increases in prices of petroleum products, but prices of farm and food products declined appreciably. From the first to the second quarter of the year, the advance in average wage rates continued to moderate.

In recent weeks the average exchange value of the dollar against leading foreign currencies has risen considerably, as interest rates on U.S. dollar assets increased relative to rates on foreign currency assets after mid-June. In May the U.S. foreign trade balance registered a substantial surplus, as imports dropped more sharply than exports. U.S. banks reported a sizable increase in claims on foreigners, while liabilities to foreigners were reduced slightly.

Growth in M_1 , M_2 , and M_3 —which was substantial in May—was extremely rapid in June, in part because of Federal income tax rebates and of supplementary social security payments; beginning late in the month, after completion of such payments, the aggregates weakened. Business demands for short-term credit remained unusually weak both at banks and in the commercial paper market, while demands in the long-term market continued exceptionally strong. Market interest rates in general have risen appreciably 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 stimulating economic recovery, while resisting inflationary pressures and working toward equilibrium in the country's balance of payments.

To implement this policy, while taking account of the forthcoming Treasury financing and of developments in domestic and international financial markets, the Committee seeks to maintain about the prevailing bank reserve and money market conditions over the period immediately ahead, provided that growth in monetary aggregates appears to be slowing substantially from the bulge during the second quarter.

Votes for this action: Messrs. Burns, Baughman, Bucher, Coldwell, Eastburn, Jackson, MacLaury, Mayo, Wallich, and Debs. Vote against this action: Mr. Holland.

Absent and not voting: Messrs. Hayes and Mitchell. (Mr. Debs voted as alternate for Mr. Hayes.)

Mr. Holland dissented from this action because he believed that present circumstances did not warrant providing for a possible rise in the Federal funds rate to a level as high as $6\frac{3}{4}$ per cent in the period until the next meeting. He preferred to maintain bank reserve and money market conditions in the inter-meeting period closer to those now prevailing, in the expectation that by the next

meeting the unwinding of the recent bulge in monetary aggregates caused by unusual Treasury payments would have proceeded far enough to permit monetary policy decisions to be related more closely to underlying trends in the aggregates.

MEETING HELD ON AUGUST 19, 1975

1. Domestic Policy Directive

The information reviewed at this meeting suggested that output of goods and services—after having fallen sharply for two quarters—had bottomed out in the second quarter of 1975 and was likely to increase appreciably in the current quarter. Staff projections suggested that expansion in output would remain strong in the fourth quarter. It was expected that the rate of increase in prices—which had moderated earlier this year—would be somewhat more rapid in the third and fourth quarters.

In July retail sales continued to expand at a vigorous pace, in real as well as in dollar-value terms. Industrial production—which had turned up in June after 8 months of decline—rose moderately further, reflecting in large part gains in output of consumer goods. The average workweek of production workers in manufacturing industries increased considerably, and employment in nonfarm establishments also rose. Although the civilian labor force increased, after having contracted in June, the unemployment rate declined further, from 8.6 to 8.4 per cent.

The advance in the index of average hourly earnings for private nonfarm production workers, which had continued to moderate in the second quarter of the year, was relatively slow in July. The wholesale price index rose sharply, in large part because of substantial increases in prices of grains, hogs, meats, and some other foods and foodstuffs; among industrial commodities, prices of fuels and related products and power rose significantly. In June the rise in the consumer price index had accelerated again, reflecting mainly increases in retail prices of foods and fuels.

Staff projections for the second half of 1975, compared with those of 5 weeks earlier, suggested a larger rise in prices and a more vigorous recovery in output. The faster rate of expansion in real GNP reflected for the most part a more marked slowing

in business inventory liquidation from the sharp rate of liquidation in the second quarter. Business fixed investment outlays now were projected to strengthen late in the year. As before, it was anticipated that real consumption expenditures would increase at a rapid pace and that residential construction also would expand but that exports would rise less than imports.

The average exchange value of the dollar against leading foreign currencies—which had begun to appreciate in late June—rose considerably further between mid-July and mid-August, reflecting a continued rise in short-term interest rates on dollar assets relative to comparable rates on assets denominated in other currencies. Moreover, a large increase in the U.S. foreign trade surplus was reported for June—when exports increased sharply while imports declined slightly further—and the surplus for the second quarter as a whole was substantially greater than for the first quarter.

Total loans and investments at U.S. commercial banks expanded moderately in July. On a seasonally adjusted basis, outstanding loans to businesses changed little, and the outstanding volume of commercial paper issued by nonfinancial businesses rose somewhat, following several months of decline. Banks continued to add to their holdings of U.S. Government securities but not at so rapid a pace as in earlier months of this year. Most major banks raised the prime rate from 7 to 7¾ per cent, owing in part to recent increases in short-term market interest rates.

M_1 increased relatively little in July, after having grown extremely rapidly in May and June in association with disbursement of Federal income tax rebates and of supplementary social security payments. Inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions—which also had been augmented by the special Treasury payments—slowed in July, but they were still fairly large; growth in M_2 and M_3 , although substantially below the pace in the preceding 2 months, was moderate.

System open market operations since the July 15 meeting had been guided by the Committee's decision to maintain about the prevailing bank reserve and money market conditions, provided that growth in monetary aggregates appeared to be slowing substantially from the bulge during the second quarter. Data that had become available immediately after the July meeting suggested that in the July–August period the aggregates would grow at rates above

the upper limits of the ranges of tolerance that had been specified by the Committee. Accordingly, System operations had been directed toward a slight firming in bank reserve and money market conditions, and the Federal funds rate had risen to the vicinity of $6\frac{1}{8}$ to $6\frac{1}{4}$ per cent in the latter part of July from about 6 per cent at the time of the July meeting. Later data suggested that growth in the aggregates would be within the specified ranges, and System operations were directed toward maintaining steady conditions.

On July 23 the Treasury announced that it would auction up to \$5.8 billion of notes and bonds, of which \$4.8 billion represented refunding of publicly held notes that were to mature on August 15. In auctions on July 29, 30, and 31, respectively, the Treasury sold \$3 billion of $2\frac{3}{4}$ -year notes at an average price to yield 7.94 per cent, \$2 billion of 7-year notes at an average price to yield 8.14 per cent, and \$800 million of 25-year bonds at an average price to yield 8.44 per cent. On August 6 the Treasury announced that over the following 2 weeks it would sell 2-year and 4-year notes and additional amounts of bills to raise \$6 billion in new cash.

Market interest rates in general had risen appreciably further since the July meeting of the Committee, in response to indications of the strengthening in economic activity, to the pick-up in the rate of increase in prices, to the large current and prospective financing requirements of the Treasury, and to the firming in money market conditions. In the short-term market, rates on Treasury securities had risen somewhat more than those on private instruments. On the day before this meeting, the rate on 3-month Treasury bills was 6.42 per cent, up about 40 basis points from the rate at the time of the July meeting.

In markets for longer-term securities, upward pressures were also greater for Government than for private securities, reflecting the heavy offerings of Treasury coupon issues. Conditions in the market for State and local government securities were adversely affected by the uncertainties stemming from the financing problems of New York City. Offerings of such securities were large in July, but a decline was in prospect for August. On the other hand, upward pressures on corporate bond yields were dampened by cancellation or postponement of some new issues that had been scheduled for

marketing in August. The volume of public offerings of corporate bonds fell in July from the record high of June, and a further decline was in prospect for August.

A staff analysis suggested that growth in monetary aggregates would pick up moderately in the August–September period from the reduced rate in July, in part because of the gathering strength in economic activity. It was further suggested that if nominal GNP were to expand over the second half of the year at about the rates now projected, the demand for money would strengthen considerably.

At its previous meeting, the Committee had agreed that growth in the monetary and credit aggregates on the average over the period from the second quarter of 1975 to the second quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: M_1 , 5 to 7½ per cent; M_2 , 8½ to 10½ per cent; M_3 , 10 to 12 per cent; and the bank credit proxy, 6½ to 9½ per cent. It was understood that the ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that from month to month short-run factors might cause the rates of growth of the various aggregates to fall outside the ranges contemplated for annual periods.

In the course of the Committee's discussion of current policy at this meeting, it was noted that the economic recovery appeared to have gained strength over the past month—suggesting that expansion in activity would be relatively vigorous over the second half of the year—and that inflationary expectations had increased. It was also suggested, however, that financial markets had overreacted to the minor tightening in bank reserve and money market conditions that had occurred over the past 2 months; that financial markets in general were unsettled, in part because of the financial problems of New York City and the possible repercussions of those problems; and that interest rates were high for this stage of the business cycle. In the circumstances, most members advocated maintenance of about the prevailing bank reserve and money market conditions in the period immediately ahead, provided that the monetary aggregates appeared to be growing in the August–September period at about the moderate rates expected. However, some members advocated a slight further firming in bank reserve and

money market conditions in order to restrain monetary expansion later on.

The Committee decided to seek bank reserve and money market conditions consistent with moderate growth in monetary aggregates over the months ahead, while taking account of developments in domestic and international financial markets. Specifically, the members agreed that growth in M_1 and M_2 over the August–September period at annual rates within ranges of tolerance of $4\frac{1}{2}$ to 7 per cent and $8\frac{1}{4}$ to $10\frac{3}{4}$ per cent, respectively, would be acceptable. Such growth rates were thought likely to involve an annual rate of change in reserves available to support private nonbank deposits (RPD's) within a range of $-1\frac{1}{2}$ to -4 per cent.

The members agreed that in the period until the next meeting the weekly average for the Federal funds rate might be expected to vary in an orderly fashion within a range of $5\frac{3}{4}$ to 7 per cent, although it was understood that operations would not be directed toward establishing reserve conditions consistent with a movement in the rate above or below the current $6\frac{1}{8}$ to $6\frac{1}{4}$ per cent area unless it appeared that in the August–September period growth in the monetary aggregates would be substantially stronger or weaker than now expected. It was also 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 output of goods and services bottomed out in the second quarter and is likely to increase appreciably in the current quarter. In July retail sales expanded further and industrial production rose moderately for the second consecutive month, following 8 months of decline. Conditions in labor markets improved further: employment increased, the unemployment rate declined from 8.6 to 8.4 per cent, and the average workweek in manufacturing lengthened considerably. Average wholesale prices rose sharply in July, chiefly because of increases in prices of agricultural and energy products. The advance in average wage rates has continued to moderate over recent months.

In recent weeks the average exchange value of the dollar against leading foreign currencies has risen considerably further, reflecting additional increases in interest rates on U.S. dollar assets relative to rates on foreign currency assets. In June the U.S. foreign trade surplus rose substantially, as exports increased sharply while imports declined slightly further.

In July M_1 increased relatively little and growth in M_2 and M_3 slowed substantially, following a sharp increase in depositors' balances in May and June in connection with Federal income tax rebates and supplementary social security payments. Market interest rates in general have risen appreciably further in recent weeks, in association with indications of strengthening economic activity, more rapid inflation, and larger current and prospective Treasury financing requirements. Corporate bond offerings moderated somewhat in July but State and local government offerings continued large. Financial markets reflected considerable uncertainty stemming from New York City's financing problems. Business demands for short-term credit remained weak, although less so than in earlier months.

In light of the foregoing developments it is the policy of the Federal Open Market Committee to foster financial conditions conducive to stimulating economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, 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, Volcker, Baughman, Bucher, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Mitchell, and Wallich.
Votes against this action: None.

Subsequent to the meeting, on September 5, the available data suggested that in the August–September period M_1 would grow at a rate in the lower part of the range of tolerance that had been specified by the Committee and that M_2 would grow at a rate just below the lower limit of its range. In view of the likelihood of substantial strengthening in demands for money and credit over coming months, it appeared that a decline in the Federal funds

rate at this time might have to be reversed shortly—a sequence that could seriously compound uncertainties in financial markets. Therefore, Chairman Burns recommended that until the next meeting of the Committee the Manager be instructed to continue to maintain reserve conditions consistent with a Federal funds rate in the 6½ to 6¼ per cent area, while leaning toward the lower figure. Available members of the Committee concurred in the Chairman's recommendation.

2. Authorization for Domestic Open Market Operations

On August 6, 1975, Committee members had voted to increase from \$2 billion to \$3 billion the limit on System holdings of special short-term certificates of indebtedness purchased directly from the Treasury, specified in paragraph 2 of the authorization for domestic open market operations, effective immediately, for the period until the close of business on August 19, 1975.

Votes for this action: Messrs. Burns, Bucher, Coldwell, Eastburn, Mitchell, Volcker, Wallich, Balles, and Francis. Votes against this action: None.

Absent and not voting: Messrs. Baughman, Holland, Jackson, MacLaury, and Mayo. (Messrs. Balles and Francis voted as alternates for Messrs. MacLaury and Baughman, respectively.)

This action, which was ratified at today's meeting, was taken on the recommendation of the System Account Manager. At the time of the recommendation, Treasury balances at Federal Reserve Banks were in overdraft in the amount of \$651 million. Overdrafts were expected to continue until August 18 or 19, and it appeared possible that Treasury cash borrowing from the System substantially in excess of the \$2 billion limit would be required.

3. Authorization for Foreign Currency Operations

The Committee approved an increase from \$180 million to \$360 million in the System's swap arrangement with the Bank of Mexico and the corresponding amendment to paragraph 2 of the authorization for foreign currency operations, effective after review and approval by Chairman Burns following resolution of certain tech-

tical matters. The Chairman approved the increase on August 29, 1975. With this change, paragraph 2 of the authorization read as follows:

The Federal Open Market Committee directs the Federal Reserve Bank of New York to maintain reciprocal currency arrangements ("swap" arrangements) for 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	3,000
Bank of France	2,000
German Federal Bank	2,000
Bank of Italy	3,000
Bank of Japan	2,000
Bank of Mexico	360
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 authorized European currencies other than Swiss francs	1,250

Votes for this action: Messrs, Burns, Volcker,
Baughman, Bucher, Coldwell, Eastburn, Holland,
Jackson, MacLaury, Mayo, Mitchell, and Wallich.
Votes against this action: None.

This action was taken in order to expand the facilities available for coping with the possible temporary pressures on the peso.

MEETING HELD ON SEPTEMBER 16, 1975

1. Domestic Policy Directive

The information reviewed at this meeting suggested that output of goods and services—which had turned up in the second quarter—was increasing appreciably in the current quarter and that prices, on the average, were rising at a somewhat faster pace than in the first half of the year. Staff projections suggested that expansion in output would remain strong in the fourth quarter and that the rate of growth would then moderate somewhat in the first half of 1976.

In August the pace of economic recovery appeared to have gained momentum; both industrial production and employment in nonfarm establishments advanced more than in July. The average workweek of production workers in manufacturing industries continued to lengthen, and for the first time since October 1974 it approached 40 hours. The unemployment rate—which had declined from 9.2 per cent in May to 8.4 per cent in July—was unchanged, as the civilian labor force increased about as much as total employment. Retail sales apparently declined slightly in August, following 4 months of large gains in real as well as in dollar-value terms.

The increase in the index of average hourly earnings for private nonfarm production workers was large in August, after having been relatively small in July; over recent months, on the average, the advance has been somewhat less rapid than in 1974 and in the first quarter of 1975. The wholesale price index for industrial commodities rose somewhat more in August than in July, in part because the rise in August reflected earlier increases in gasoline prices; the index for farm and food products declined slightly. In July the rise in the consumer price index had accelerated further, owing chiefly to sizable increases in retail prices of foods, gasoline, fuel oil, and used cars.

Staff projections continued to suggest that nominal GNP would expand rapidly in the second half of 1975 as a result of a vigorous recovery in output and a somewhat faster rise in average prices

than in the first half, mainly reflecting increases in prices of foods and energy products. As a month earlier, it was expected that business inventory liquidation would slow sharply from the extraordinary rate in the second quarter; that real consumption expenditures would grow at a substantial pace; that residential construction would pick up; and that business fixed investment outlays would begin to strengthen late in the year. However, it also was anticipated that—in view of the projected strength of the domestic recovery—imports would expand more than exports.

The exchange value of the dollar against leading foreign currencies—which had appreciated considerably from late June to mid-August—rose somewhat further to mid-September, in part because interest rate developments here and abroad continued to favor the dollar. In July U.S. merchandise imports rose sharply, to a considerable extent because of a large increase in imports of fuels from the depressed level in June, and the U.S. foreign trade surplus declined from the very high rates in June and in the second quarter as a whole. Private capital transactions reported by banks shifted to a net inflow in July from net outflows in earlier months. U.S. liabilities to foreign official agencies declined, after having increased earlier, as some countries sold dollars to support their currencies in the foreign exchange markets.

Total loans and investments at U.S. commercial banks continued to expand at a moderate pace in August. Outstanding loans to businesses declined slightly, but banks again added a substantial amount to their holdings of U.S. Government securities. The outstanding volume of commercial paper issued by nonfinancial businesses—which had turned up in July—rose again in August, reflecting a modest strengthening in business demands for short-term credit and a lower cost of funds in the commercial paper market than at banks. In mid-September a number of banks raised the prime rate further, from $7\frac{3}{4}$ to 8 per cent.

Expansion in M_1 picked up somewhat in August from the low rate in July, when it had been limited to a significant degree by adjustment of money balances after the May–June bulge associated with special disbursements by the Treasury. Growth in M_2 and M_3 slowed further in August, however, as inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions continued to moderate, in part because of the increased attractive-

ness of alternative investments. Banks reduced the outstanding volume of large-denomination CD's for the seventh consecutive month, in response to continued growth in other deposits and to weakness in loan demand.

On September 10 the Treasury announced an estimate of its borrowing needs for the rest of 1975, which involved raising \$22 billion to \$25 billion of new money. For the period through the third week in October, the Treasury's financing plans included auctions of \$2 billion of 29-month notes, \$6 billion of 2-year notes, and \$1.9 billion of 1-year bills. Of the total of \$9.9 billion, \$7 billion represented new money.

Short-term market interest rates—which had increased appreciably from mid-June to mid-August—subsequently changed relatively little, despite increased Treasury and private demands for funds in the short-term market. On the day before this meeting, the market rate on 3-month Treasury bills was 6.50 per cent, compared with 6.42 per cent on the day before the August meeting.

Yields on longer-term Treasury and corporate securities edged lower over most of the inter-meeting period, in response mainly to the stability in short-term markets and to a substantial decline in offerings of new securities. However, yields adjusted upward after September 10 when the Treasury announced its sizable borrowing requirements over the rest of this year. Yields on State and local government securities rose to new highs in early September because of widespread concern about possible repercussions of New York City's financial crisis; on September 9 a State program to assist the city was enacted. In home mortgage markets, yields advanced throughout the inter-meeting period, as demands for funds expanded while the outlook for their cost and availability became more uncertain.

System open market operations since the August 19 meeting 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. It had been expected that the weekly average for the Federal funds rate might vary in an orderly fashion within a range of 5¾ to 7 per cent, with the understanding that operations would not be directed toward moving the rate above or below the 6⅛ to 6¼ per cent area prevailing at that time unless it appeared that in the August–September period

growth in the monetary aggregates would be substantially stronger or weaker than expected. Data that became available in early September suggested that in the 2-month period M_1 would grow at a rate in the lower part of the range of tolerance that had been specified by the Committee and that M_2 would grow at a rate slightly below the lower limit of its range. All available members of the Committee concurred in Chairman Burns' recommendation of September 5 that—in view of the likelihood of substantial strengthening in demands for money and credit over coming months and the prospect that a decline in the Federal funds rate might have to be reversed shortly—the Manager be instructed to continue until the next meeting to maintain reserve conditions consistent with a Federal funds rate in the $6\frac{1}{8}$ to $6\frac{1}{4}$ per cent area, while leaning toward the lower figure. On the average, the Federal funds rate remained in that area over the rest of the period until this meeting.

At its July meeting the Committee had agreed that growth in the monetary and credit aggregates on the average over the period from the second quarter of 1975 to the second quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: M_1 , 5 to $7\frac{1}{2}$ per cent; M_2 , $8\frac{1}{2}$ to $10\frac{1}{2}$ per cent; M_3 , 10 to 12 per cent; and the bank credit proxy, $6\frac{1}{2}$ to $9\frac{1}{2}$ per cent. In its discussion of current policy at this meeting the Committee took note of the indications that economic activity was now on the increase and of the likelihood that expansion in nominal GNP over coming quarters would be associated with considerable strengthening in the demand for money and credit. The continuing unsettlement in financial markets and the successive large-scale Treasury financing operations scheduled for coming weeks were also taken into account.

In view of the economic outlook, none of the members favored operations to ease bank reserve and money market conditions in the period immediately ahead. Some advocated operations to achieve some modest firming, whenever feasible without disrupting markets, in order to help restrain monetary growth later. And others noted that they would be willing to act promptly to seek firmer conditions if and when the rate of growth in the monetary aggregates accelerated substantially, but that they preferred not to base such action on projections that monetary growth would exceed the desired rates over the longer run.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in the monetary aggregates over the months ahead, while taking account of developments in domestic and international financial markets. Specifically, the members agreed that growth in M_1 and M_2 over the September–October period at annual rates within ranges of tolerance of 5 to 8 per cent and 7 to 9½ per cent, respectively, would be acceptable. It was thought that such growth rates would be likely to involve annual rates of change in reserves available to support private nonbank deposits (RPD's) within a range of 1 to 4 per cent.

The members agreed that in the period until the next meeting the weekly average for the Federal funds rate might be expected to vary in an orderly fashion within a range of 6 to 7 per cent. It was understood, however, that if developments with respect to the aggregates suggested the need to move the Federal funds rate above 6¾ per cent, open market operations toward that end would not be undertaken until after the Chairman had consulted with the Committee.

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

The information reviewed at this meeting suggests that output of goods and services—which had turned up in the second quarter—is increasing appreciably further in the current quarter. In August industrial production and nonfarm payroll employment expanded at a faster pace than in July, and the average workweek in manufacturing continued to lengthen. The unemployment rate remained at 8.4 per cent, as the civilian labor force increased about as much as total employment. Retail sales apparently declined slightly, following 4 months of large gains. The index of wholesale prices of industrial commodities rose somewhat more in August than in July, chiefly because of increases in prices of energy products; prices of farm and food products declined slightly. The advance in average wage rates over recent months has been somewhat less rapid than in 1974 and early 1975.

In recent weeks the exchange value of the dollar against leading foreign currencies has risen somewhat further. In July the U.S. foreign trade surplus declined from the very high second-quarter level, as imports rose sharply. Bank-reported capital movements showed a net inflow, in contrast to the net outflows of earlier months,

while U.S. liabilities to foreign official agencies, which earlier had been rising, declined.

Expansion in M_1 picked up somewhat in August from the low July rate. Growth in M_2 and M_3 slowed further, however, as inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions continued to moderate, reflecting in part the increased attractiveness of alternative investments. Interest rates on short-term securities and on longer-term Treasury and corporate securities have shown little net change in recent weeks, except that longer-term yields adjusted upward following the Treasury's September 10 announcement of its sizable borrowing requirements over the rest of this year. Yields on State and local government securities rose to new highs in early September, as a result of widespread concern about possible repercussions of New York City's financial crisis; on September 9 a State program to assist the City was enacted.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions conducive to stimulating economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, 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, Volcker, Baughman, Bucher, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Mitchell, and Wallich.
Votes against this action: None.

Subsequent to the meeting, on October 2, the available data suggested that in the September–October period both M_1 and M_2 would grow at rates well below the lower limits of the ranges of tolerance that had been specified by the Committee. The Federal funds rate had averaged 6.36 per cent during the statement week ending October 1 and most recently had been about $6\frac{1}{4}$ per cent. In view of the weakness of the aggregates and of the unsettled market for municipal securities, Chairman Burns recommended that the Manager be instructed to aim at a Federal funds rate of $6\frac{1}{8}$ per cent immediately and to aim to reduce the rate to 6 per cent over the next few days. The Chairman also recommended that the

lower limit of the funds rate constraint be reduced to 5¾ per cent, in order to provide leeway for further operations in the event that current weakness of the aggregates was confirmed by incoming data in the following week. All available members of the Committee—with the exception of Mr. Bucher—concurred in the Chairman's recommendations. Mr. Bucher, while concurring in the first recommendation, preferred not to reduce the lower limit of the constraint before data on the aggregates became available in the following week.

2. Authorization for Domestic Open Market Operations

On October 3, 1975, Committee members voted to increase from \$3 billion to \$4 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 October 21, 1975.

Votes for this action: Messrs. Burns, Volcker, Baughman, Bucher, Coldwell, Eastburn, Jackson, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: None.

Absent and not voting: Mr. Holland.

This action was taken on recommendation of the System Account Manager, who had advised that large-scale purchases of Treasury and Federal agency securities since the September meeting of the Committee—required mainly to counter the effect of a rise in Treasury balances at the Reserve Banks—had reduced the leeway available for further purchases to about \$300 million. While projections for coming weeks suggested that the System would be in a position to absorb rather than to provide reserves, the Manager believed that in view of the fragile state of confidence in financial markets, especially the municipal market, it would be desirable for the Desk to have additional flexibility to deal with unfolding developments.

MEETING HELD ON OCTOBER 21, 1975

Domestic Policy Directive

The information reviewed at this meeting suggested that output of goods and services—which had turned up in the second quarter—increased at an annual rate of about 11 per cent in the third quarter and that prices, on the average, rose at a faster pace than in the first half of the year. Staff projections suggested that expansion in output, although continuing strong, would be less rapid in the fourth than in the third quarter and that growth would then moderate further in the first half of 1976. The projections also suggested that the rate of increase in prices over the period to mid-1976, while still relatively rapid, would be well below the high rate in the third quarter of 1975.

In September retail sales apparently remained at about the level that had been reached in July after 4 months of large gains. Industrial production, which had turned up in May, expanded at progressively higher rates in the three following months. Employment in nonfarm establishments continued to expand in September, reflecting widespread gains among manufacturing industries, and the unemployment rate edged down further to 8.3 per cent from 8.4 per cent in August.

The increase in the index of average hourly earnings for private nonfarm production workers was moderate in September; although increases had been substantial in the immediately preceding months, the advance over the third quarter remained somewhat less rapid than during 1974 and the first quarter of 1975. Wholesale prices of farm and food products rose sharply in September, and as in August, average wholesale prices of industrial commodities rose somewhat faster than earlier in the year, in part because of increases in prices of energy products. In August retail prices of foods had been unchanged, and the consumer price index had increased relatively little.

Staff projections for the fourth quarter and for the first half of 1976 suggested that growth in personal consumption expenditures

would be substantial—although less so than in the third quarter of this year when growth had been stimulated by the tax rebates—and that business inventories would shift from substantial liquidation in the third quarter to little change in the fourth quarter and then to moderate accumulation. It was also anticipated that residential construction would continue to pick up and that business fixed investment would increase somewhat. However, growth in State and local government purchases of goods and services—which had slowed in the third quarter—was expected to remain at a reduced rate over the current and next two quarters. In addition, exports were projected to expand less than imports.

The exchange value of the dollar against leading foreign currencies rose further in late September, extending the substantial gain that had begun in late June. Subsequently, it fell back to the mid-September level, in part because of declines in interest rates in this country relative to those abroad. In August the U.S. foreign trade surplus increased, reflecting appreciable gains in exports of soybeans, corn, and other agricultural products. Private capital transactions reported by banks, after having shifted to a net inflow in July, showed a larger inflow in August, and U.S. liabilities to foreign official agencies declined further.

Total loans and investments at U.S. commercial banks increased slightly in September. Outstanding loans to business declined and total loans changed little, but banks again added a sizable amount to their holdings of U.S. Government securities. The outstanding volume of commercial paper issued by nonfinancial business—which had turned up in July and had increased further in August—declined sharply in September.

M_1 rose slightly on the average in September, but according to weekly data, it declined in the latter part of the month and in early October. From the second to the third quarter, M_1 grew at an annual rate of 6.9 per cent.¹ Inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions continued to moderate in September, reflecting in part the attractiveness of alternative investments, and growth in M_2 and M_3 slowed further. From the second to the third quarter, M_2 and M_3

¹Growth rates cited are based on changes in the average amounts outstanding for the whole quarter.

grew at annual rates of 10.4 per cent and 13.1 per cent, respectively.

On October 15 the Board of Governors announced a reduction in reserve requirements on member bank time deposits with original maturities of 4 years or more. The action—which was expected to release about \$350 million in reserves to the banking system in the week beginning October 30—was designed primarily to encourage banks to lengthen the structure of their liabilities. It would also help to meet the seasonal need for bank reserves over the coming weeks and to facilitate moderate growth in monetary aggregates.

System open market operations since the September 16 meeting of the Committee 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. Immediately after the meeting, operations were directed toward a slight firming of bank reserve and money market conditions with the objective of moving the Federal funds rate up toward the midpoint of the 6 to 7 per cent range of tolerance that had been specified by the Committee. However, data that became available a week later suggested that in the September–October period M_1 and M_2 would grow at rates near the lower limits of their ranges of tolerance, and operations were directed toward a slight easing in bank reserve and money market conditions.

Data that became available in early October suggested that in the September–October period both M_1 and M_2 would grow at rates well below the lower limits of the specified ranges of tolerance, and all available members of the Committee concurred in Chairman Burns' recommendation of October 2 that the Manager be instructed to aim to reduce the Federal funds rate to 6 per cent over the next few days. The available members—with one exception—also concurred in the Chairman's recommendation that the lower limit of the Federal funds rate constraint be reduced to $5\frac{3}{4}$ per cent, in order to provide leeway for further operations in the event that weakness of the aggregates was confirmed by incoming data in the following weeks. Later data did confirm the weakness, and operations were directed toward a further easing in bank reserve and money market conditions. In the remaining trading days before this meeting, the Federal funds rate was close to $5\frac{3}{4}$ per cent.

Short-term market interest rates continued to change little in late September but then declined significantly in October under the influence of weakness in business demands for credit, indications of slow growth in monetary aggregates, and the decline in the Federal funds rate. On the day before this meeting, the market rate on 3-month Treasury bills was 5.90 per cent, down from 6.50 per cent on the day before the September meeting.

Yields on longer-term Treasury and corporate securities also declined in early October, in response to the easing in short-term markets. However, yields on State and local government securities rose to new highs in the first week of October, reflecting widespread concern about the possible repercussions of the New York City financial crisis, but subsequently the market for issues other than those of New York improved somewhat.

At this meeting the Committee reviewed the ranges for growth in the monetary aggregates over the period from the second quarter of 1975 to the second quarter of 1976 that it had specified at its July meeting. The Committee projected growth ranges that differed little from those specified earlier, and it decided to apply the ranges to the 12-month period from the third quarter of 1975 to the third quarter of 1976. Given the rates of growth realized in the second quarter of this year, the updating of the base allowed for slightly higher longer-run rates of monetary expansion than if the time frame from this year's second quarter to next year's had been retained.

The growth range specified for M_1 , as before, was 5 to 7½ per cent. The ranges for M_2 and M_3 were widened by reducing the lower end of each by 1 percentage point; thus, the ranges were 7½ to 10½ per cent for M_2 and 9 to 12 per cent for M_3 . Those adjustments were made because recent experience had suggested that pressures on market interest rates stemming in part from heavy Treasury borrowings might serve to moderate inflows of savings funds to depository institutions. The associated range for growth in the bank credit proxy was 6 to 9 per cent. As at earlier meetings, it was understood that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In discussing current policy, the Committee took note of a staff analysis in which it was suggested that, in view of the projected expansion in GNP, growth in M_1 was likely to resume in coming weeks. Because of its reduced level in early October, however, M_1 was expected to show relatively slow growth over the October–November period. Time deposit experience at banks and non-bank thrift institutions was expected to improve somewhat in the short run, in response to the declines in market interest rates that had occurred in recent weeks.

During the discussion of current policy at this meeting, some Committee members expressed doubt concerning the strength of recovery in economic activity over the quarters immediately ahead, in part because of the possible repercussions of New York's financial problems and because of the relatively high levels of market interest rates prevailing at this early stage of the recovery. It was noted, moreover, that inflation remained a serious problem. Against that background, and in view of the recent weak performance of the monetary aggregates, some members advocated operations to ease bank reserve and money market conditions—with the objective of promoting prompt resumption of moderate growth in the monetary aggregates. There was some sentiment for maintaining prevailing money market conditions, in part because of the likelihood of substantial strengthening in demands for money and credit over coming months, which might lead to a reversal of the easing in money market conditions. None of the members advocated operations to tighten bank reserve and money market conditions in the period immediately ahead.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in the monetary aggregates over the months ahead, while taking account of developments in domestic and international financial markets. Specifically, the members agreed that growth in M_1 and M_2 over the October–November period at annual rates within ranges of tolerance of 3 to 7 per cent and $5\frac{1}{2}$ to $8\frac{1}{2}$ per cent, respectively, would be acceptable. It was thought that such growth rates would be likely to involve an annual rate of growth in reserves available to support private nonbank deposits (RPD's) within a range of 0 to 4 per cent.

The members agreed that until the next meeting the weekly

average for the Federal funds rate might be expected to vary in an orderly fashion within a range of $5\frac{1}{4}$ to $6\frac{1}{4}$ per cent. It was understood, however, that unless new data suggested that growth in the monetary aggregates in the October–November period would exceed the rates now expected, operations would be directed toward moving the Federal funds rate down to $5\frac{1}{2}$ per cent by the end of the statement week following this meeting.

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

The information reviewed at this meeting suggests that output of goods and services—which had turned up in the second quarter—increased sharply further in the third quarter. In recent months retail sales have been maintained at the higher levels reached in early summer, and industrial production has strengthened progressively. Nonfarm payroll employment continued to expand in September, and the unemployment rate edged down from 8.4 to 8.3 per cent. In September, as in August, average wholesale prices of industrial commodities rose somewhat faster than earlier in the year, in part because of increases in prices of energy products; prices of farm and food products rose sharply in September. The advance in average wage rates in recent months has remained somewhat less rapid than in 1974 and early 1975.

After rising further in late September, the exchange value of the dollar against leading foreign currencies has declined to about its mid-September level. In August the U.S. foreign trade surplus increased as agricultural exports rose. Bank-reported private capital movements showed a further net inflow, while U.S. liabilities to foreign official agencies declined again.

M_1 rose slightly on the average in September but declined in the latter part of the month and in early October. From the second to the third quarter, however, M_1 grew at a 6.9 per cent annual rate. Inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions continued to moderate in September, reflecting in part the attractiveness of alternative investments, and growth in M_2 and M_3 slowed further. Although conditions in markets for State and local government securities continued to be adversely affected by New York's financial problems, most short- and long-term interest rates have declined in recent weeks. On October 15 the Board of Governors announced a reduction of member bank reserve requirements on long-term time deposits.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, 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, Volcker, Baughman, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: None.

Absent and not voting: Mr. Bucher.

MEETING HELD ON NOVEMBER 18, 1975

Domestic Policy Directive

The information reviewed at this meeting suggested that output of goods and services—which had increased at an annual rate of 11 per cent in the third quarter—was expanding more moderately in the current quarter and that prices were continuing to rise at a relatively fast pace. Staff projections continued to suggest that growth would moderate further in the first half of 1976 and that the rate of increase in prices would slow somewhat over the period to mid-1976.

In October retail sales had risen somewhat, according to the advance report, after 2 months of little net change from the higher levels reached in July. Industrial production continued to recover, although at a considerably less rapid pace than in the preceding 4 months. Recovery in nonfarm payroll employment also was less rapid than in earlier months, and the average workweek in manufacturing was unchanged. The unemployment rate rose from 8.3 to 8.6 per cent, reflecting a sizable increase in the civilian labor force.

The index of average hourly earnings for private nonfarm production workers rose substantially in October. The rise in average wholesale prices of industrial commodities—which had accelerated in August and September—was even more rapid in October, reflecting in part previously announced increases in prices of 1976-model automobiles and of steel. The index for farm and food products rose sharply further, but after mid-October—the date used for the index—prices of many agricultural products declined. In September the consumer price index had risen moderately; increases in prices of new automobiles and of transit fares in New York City accounted for much of the rise.

Staff projections for the fourth quarter and for the first half of 1976 were similar to those of 4 weeks earlier. They suggested that growth in personal consumption expenditures would be considerable—although less than in the third quarter—and that business

inventories would shift from substantial liquidation in the third quarter to small accumulation in the fourth quarter and then to moderate accumulation. It was also anticipated that residential construction would continue to expand and that business fixed investment would begin to recover. However, growth in State and local government purchases of goods and services—which had slowed in the third quarter—was expected to remain at a reduced rate over the current and next two quarters. In addition, exports were projected to rise less than imports.

The exchange value of the dollar had moved in a narrow range in recent weeks. In September both U.S. merchandise exports and imports increased, and the foreign trade surplus remained substantial; the surplus for the third quarter as a whole was nearly as great as the average surplus for the first two quarters. Private capital transactions reported by banks, which had shown net inflows in July and August, apparently shifted back to a net outflow in September. The volume of offerings of new foreign bonds in the U.S. market has been at record levels this year.

Total loans and investments at U.S. commercial banks expanded moderately in October, on a seasonally adjusted basis. Outstanding loans to business—which had declined in most months earlier this year—rose appreciably; however, the increase in total short-term business borrowing was small as the outstanding volume of commercial paper issued by nonfinancial corporations declined further. Banks reduced their holdings of Treasury securities, but they increased their holdings of Federal agency and other securities by an almost equivalent amount. In late October and early November most banks reduced the prime rate applicable to large business borrowers from 8 to 7½ per cent, and one major bank reduced it to 7¼ per cent.

M_1 grew at an annual rate of 6.9 per cent from the average level during the second quarter to the average level during the third quarter, but it rose relatively little in the months of the third quarter and declined in October. Inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions remained moderate in October, and growth in M_2 and M_3 slowed further. From the second-quarter average to the third-quarter average, M_2 and M_3 grew at annual rates of 10.4 per cent and 13.1 per cent, respectively.

System open market operations since the October 21 meeting 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. It had been understood that operations would be directed toward moving the Federal funds rate down from the prevailing level of around $5\frac{3}{4}$ per cent to $5\frac{1}{2}$ per cent by the end of the statement week following the meeting, unless new data suggested that growth in the monetary aggregates in the October–November period would exceed the rates expected at the time of the meeting.

The new data that became available shortly after the meeting did suggest that monetary growth would be somewhat stronger than had been expected, and operations to ease bank reserve and money market conditions were delayed. Subsequently, however, new data suggested less strength in monetary growth, so System operations were directed toward some easing in the Federal funds rate. In the days immediately preceding this meeting, the rate was around $5\frac{1}{4}$ per cent.

Short-term market interest rates declined further over the inter-meeting period, in response to the decline in the Federal funds rate and to increased demands for high-grade liquid assets. On the day before this meeting, the market rate on 3-month Treasury bills was 5.45 per cent, down from 5.90 per cent on the day before the October meeting and from 6.50 per cent just before the September meeting.

Yields on longer-term Treasury and corporate securities also declined during most of the inter-meeting period, in response to the easing in short-term markets. However, yields on State and local government securities were subject to the influence of shifting expectations concerning resolution of New York's financial problems; they rose in late October and early November and then eased somewhat. Despite the adverse impact of the New York situation, the volume of offerings of municipal bonds was relatively large in October.

At its previous meeting, the Committee had agreed that growth in the monetary aggregates on the average over the period from the third quarter of 1975 to the third quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: M_1 , 5 to $7\frac{1}{2}$ per cent; M_2 , $7\frac{1}{2}$ to $10\frac{1}{2}$ per

cent; and M_3 , 9 to 12 per cent. The associated range for growth in the bank credit proxy was 6 to 9 per cent. It was understood that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that, in view of the projected expansion in GNP, M_1 was likely to grow substantially faster over the months ahead than it had over the immediately preceding months. In addition, inflows of time and savings deposits to banks and nonbank thrift institutions were expected to pick up somewhat over the weeks ahead from the pace in late summer and early fall, in response to the decline in market interest rates that had occurred since that time.

During the discussion reference was made to the uncertain strength of the economic recovery over the quarters ahead and to the persistence of inflationary pressures. In addition, the unresolved financial problems of New York were recognized as a potential source of disturbance in financial markets that might have significant effects on the course of the recovery.

Some Committee members took the position that the objective of open market operations in the period immediately ahead should be to maintain prevailing money market conditions. Among the reasons advanced for this course were the sensitive state of financial markets and the judgment that changing relationships tended to make monetary growth rates unreliable guides to monetary policy at present. Other members, who preferred to continue to base operating decisions in the period immediately ahead primarily on the behavior of the monetary aggregates, expressed concern about their sluggish growth over recent months. In general, these members were willing to see some further easing in money market conditions, should that prove to be necessary in the pursuit of moderate monetary growth over the months immediately ahead. They also were willing to accept some tightening in money market conditions, in the event that the monetary aggregates began to grow at excessive rates.

At the conclusion of the discussion the Committee decided to seek bank reserve and money market conditions consistent with moderate growth in the monetary aggregates over the months ahead, while taking more than usual account of developments in domestic and international financial markets. Specifically, the members agreed that, in light of the low rates of increase in recent months, growth in M_1 and M_2 over the November–December period at annual rates within ranges of tolerance of 6 to 10 per cent and $7\frac{1}{2}$ to $10\frac{1}{2}$ per cent, respectively, would be acceptable. It was thought that such growth rates would be likely to involve an annual rate of growth in reserves available to support private nonbank deposits (RPD's) within a range of $4\frac{1}{2}$ to $8\frac{1}{2}$ per cent.

The members agreed that until the next meeting the weekly average for the Federal funds rate might be expected to vary in an orderly fashion within a range of $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent. It was contemplated that System operations would be directed toward moving the Federal funds rate down to the middle of that range if the data becoming available in the weeks ahead suggested that the several monetary aggregates were growing at rates close to the midpoints of their ranges of tolerance.

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

The information reviewed at this meeting suggests that output of goods and services—which had increased sharply in the third quarter—is expanding more moderately in the current quarter. Retail sales are reported to have risen in October, after 2 months of little net change. Industrial production and nonfarm payroll employment continued to recover, although at a less rapid rate than in the summer months. The unemployment rate rose to 8.6 per cent from 8.3 per cent in September, reflecting a sizable increase in the civilian labor force. Average wholesale prices of industrial commodities increased more in October than in the immediately preceding months, and prices of farm and food products rose sharply further. However, since mid-October prices of many agricultural products have declined. The advance in average wage rates in October was substantial.

Since mid-October the exchange value of the dollar against leading foreign currencies has moved in a narrow range. The U.S. foreign trade surplus in September remained substantial, as both exports and imports rose moderately. Bank-reported private capital

flows appear to have shifted to net outflows since September, and the volume of offerings of new foreign bonds in the U.S. market has been at record levels.

M_1 rose at a 6.9 per cent annual rate from the average level during the second quarter to the average level during the third quarter. However, M_1 grew relatively little in the months of the third quarter and it declined in October. Inflows of consumer-type time and savings deposits to banks and to nonbank thrift institutions remained moderate in October, and growth in M_2 and M_3 slowed further. Most short- and long-term interest rates have declined further in recent weeks. Conditions in markets for State and local government securities have continued to be adversely affected by New York's financial problems.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking more than usual account of developments in domestic and international financial markets, 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, Baughman, Bucher, Coldwell, Holland, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: Messrs. Volcker, Eastburn, and Jackson.

Messrs. Volcker and Jackson dissented from this action because they thought prevailing money market conditions should be maintained for the time being, in part because of current uncertainties about the short-run relationship between monetary growth and interest rates. In addition, Mr. Volcker indicated that he would prefer to avoid any significant tightening in money market conditions because of uncertainties about the economic outlook and the sensitivity of financial markets to New York and other problems, and to avoid any significant easing simply in response to the recent declines in the money supply, which were expected to be reversed before long. In the opinion of Mr. Jackson, performance of the broader monetary aggregates—such as M_3 —and general conditions

in credit markets were about right in the context of the current economic situation.

Mr. Eastburn dissented because he believed that the System should be more aggressive in supplying reserves in order to compensate for recent shortfalls in the rate of monetary expansion from the Committee's longer-run growth ranges. He indicated that he would place less weight on the Federal funds rate constraint because, in his judgment, too much emphasis on money market conditions had misled the Committee in the past. Accordingly, he preferred a range of tolerance for the Federal funds rate that was lower than the range adopted by the Committee and a directive with less emphasis on money market conditions.

MEETING HELD ON DECEMBER 16, 1975

Domestic Policy Directive

The information reviewed at this meeting suggested that output of goods and services—which had increased at an annual rate of 13 per cent in the third quarter—was expanding more moderately in the current quarter and that prices were continuing to rise at a relatively fast pace. Staff projections suggested that growth would remain moderate in the first half of 1976 and that the rate of increase in prices would slow somewhat.

In November the rise in industrial production slowed further, in part because of declines in output of automobiles and of energy; increases were widespread among other products, but in general they were smaller than in the preceding 5 months. Recovery in nonfarm payroll employment also slowed further. However, the dollar volume of retail sales expanded significantly for the second consecutive month. Residential construction activity rose further, reflecting the uptrend in private housing starts in recent months. The unemployment rate—which had risen 0.3 percentage point to 8.6 per cent in October—fell back to 8.3 per cent in November. Both the October rise and the November decline in the unemployment rate were caused primarily by changes in the civilian labor force.

The advance in the index of average hourly earnings for private nonfarm production workers remained rapid in November. Increases in wholesale prices of industrial commodities were pervasive, and the rise in the average for industrial commodities, although below that in October, was still relatively large. Wholesale prices of farm products declined appreciably, following 2 months of large increases, and wholesale prices of processed foods declined slightly. In October, the rise in the consumer price index had accelerated somewhat because of a considerable increase in retail prices of foods following 2 months of little change.

Staff projections of real output in the first half of 1976 were similar to those of 4 weeks earlier. They suggested that consumption expenditures would expand at a moderate pace, that residential

construction and business fixed investment would continue to recover, and that State and local government purchases of goods and services would pick up somewhat from the reduced pace in the second half of 1975. It was also anticipated that business inventory accumulation would be at a moderate rate. However, exports were projected to rise less than imports.

The exchange value of the dollar against leading foreign currencies, which had declined somewhat from early October to early November, had risen somewhat since then. The net outflow of bank-reported private capital appeared to have declined in November from the high rate in October. In October both merchandise exports and imports increased somewhat, and the foreign trade surplus remained substantial.

Total loans and investments at U.S. commercial banks expanded considerably in November. Banks added to their holdings of both Treasury and other securities and increased their outstanding loans to businesses. As in October, however, the outstanding volume of commercial paper issued by nonfinancial corporations declined, and total short-term business borrowing rose little. During the period from mid-November to mid-December most banks reduced the prime rate applicable to large business borrowers from $7\frac{1}{2}$ to $7\frac{1}{4}$ per cent, and one major bank reduced it to 7 per cent.

M_1 , which had declined in October after having grown at a slow pace during the preceding 3 months, rose sharply in November. Growth in M_2 and M_3 was substantial, as inflows of consumer-type time and savings deposits to banks strengthened and inflows to nonbank thrift institutions remained relatively favorable. Some portion of the inflows of such deposits to banks was attributable to expansion in business accounts following amendments to Federal Reserve regulations, effective November 10, 1975, that permitted corporations, partnerships, and other profitmaking organizations to maintain savings accounts of up to \$150,000 at member banks. To a considerable extent the funds placed in these business savings accounts appeared to have been shifted out of demand deposits.

System open market operations since the November 18 meeting 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. It had been contemplated that operations would be directed toward moving the Federal

funds rate down from the prevailing level of $5\frac{1}{4}$ per cent to about the middle of the $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent range of tolerance adopted by the Committee, if the data becoming available suggested that the several monetary aggregates were growing at rates close to the midpoints of their ranges of tolerance. However, the available data suggested greater strength in the growth of M_1 , after allowance for the shift in business deposits from demand to savings accounts following the regulatory changes effective November 10. In the 3 weeks after that change business savings accounts at weekly reporting member banks had risen by about \$530 million, and it was reasonable to assume that growth had also been substantial at other banks. Had it not been for this shift, the annual rate of growth in M_1 over the November–December period, according to staff estimates, would have been about $1\frac{1}{2}$ percentage points higher than it appeared to be. Moreover, the available data suggested that growth in M_2 over the 2-month period would be in the upper part of its specified range of tolerance. Accordingly, System operations during the inter-meeting period had been directed toward maintaining the prevailing bank reserve and money market conditions, and the Federal funds rate fluctuated around $5\frac{1}{4}$ per cent.

Short-term market interest rates rose somewhat over the inter-meeting period, despite the stability in the Federal funds rate. The rise in rates appeared to reflect some concern on the part of market participants that the System would act to firm bank reserve and money market conditions in response to the strong growth in the monetary aggregates in November.

Yields on longer-term debt instruments fluctuated in a narrow range during the inter-meeting period despite a large volume of offerings of new securities, including publicly offered issues of foreign private and official institutions as well as issues of domestic borrowers. On December 9 the Treasury announced that before the end of the year it would auction \$2.5 billion of 2-year notes and \$2.0 billion of 4-year notes, of which \$3.0 billion would be for new money.

At its October meeting, the Committee had agreed that growth in the monetary aggregates on the average over the period from the third quarter of 1975 to the third quarter of 1976 at rates within the following ranges appeared to be consistent with its broad economic aims: M_1 , 5 to $7\frac{1}{2}$ per cent; M_2 , $7\frac{1}{2}$ to $10\frac{1}{2}$ per cent;

and M_3 , 9 to 12 per cent. The associated range for growth in the bank credit proxy was 6 to 9 per cent. It was understood that the longer-term ranges, as well as the particular list of aggregates for which such ranges were specified, would be subject to review and modification at subsequent meetings. It also was understood that, as a result of short-run factors, growth rates from month to month might well fall outside the ranges contemplated for annual periods.

In the discussion of current policy at this meeting, the Committee took note of a staff analysis suggesting that in the period immediately ahead growth in the demand for money would be constrained by continuation of the shift in business deposits from demand accounts to savings accounts in response to the recent changes in regulations. Because the magnitude and duration of the shift were highly uncertain, however, estimates of the effects on M_1 were subject to a large margin of error. It was also noted that projections of monetary growth for the month of December were more uncertain than those for other months because many business and financial institutions customarily made adjustments to cash and debt positions for purposes of year-end statements.

During the discussion some Committee members expressed confidence in the economic outlook for the quarters immediately ahead, while other members expressed doubt concerning the strength of the recovery. In view of the uncertainties regarding the behavior of the monetary aggregates in the December–January period, many members advocated giving greater weight than usual to money market conditions in conducting open market operations in the period until the next meeting. However, a number of members preferred to continue to base operating decisions primarily on the behavior of the monetary aggregates. There was some sentiment for a slightly more stimulative policy, but most members favored no essential change in policy.

At the conclusion of the discussion the Committee decided that operations in the period immediately ahead should be directed toward maintaining the bank reserve and money market conditions now prevailing, provided that monetary aggregates appeared to be growing at about the rates currently expected. The members concluded that growth in M_1 and M_2 over the December–January period at annual rates within ranges of tolerance of 4 to 7 per cent and

7 to 10 per cent, respectively, would be acceptable.¹ It was thought that such growth rates would be likely to involve an annual rate of growth in reserves available to support private nonbank deposits (RPD's) within a range of 4 to 7 per cent.

It was contemplated that System operations until the next meeting would be directed toward maintaining the weekly average Federal funds rate at about its current level of $5\frac{1}{4}$ per cent, unless rates of growth in the monetary aggregates appeared to be deviating significantly from the midpoints of their specified ranges. The members agreed that, in the event the aggregates appeared to be deviating from expectations, the weekly average funds rate might be expected to vary in an orderly fashion within a range of $4\frac{1}{2}$ to $5\frac{1}{2}$ per cent.

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

The information reviewed at this meeting suggests that output of goods and services—which had increased very sharply in the third quarter—is expanding more moderately in the current quarter. In November the rise in industrial production and in nonfarm payroll employment slowed further. The dollar volume of retail sales rose again, however, and residential construction activity expanded, reflecting recent substantial increases in private housing starts. The unemployment rate—which had risen 0.3 percentage points to 8.6 per cent in October—fell back to 8.3 per cent in November, reflecting a sizable decline in the civilian labor force. The increase in average wholesale prices of industrial commodities, although below that in October, was still relatively large; prices of farm products declined appreciably, following 2 months of large increases. The advance in average wage rates in November was again substantial.

The exchange value of the dollar against leading foreign currencies has risen somewhat since mid-November. The net outflow of bank-reported private capital appears to have declined from the high rate reported for October. In October the U.S. foreign trade surplus remained substantial.

¹The ranges of tolerance over the December–January period were based on preliminary new seasonal factors. The growth rates specified for M_1 and M_2 for the 2-month period were, respectively, about $2\frac{1}{4}$ percentage points and 1 percentage point higher than those that would have been specified had the old factors been used. It was expected that revised money supply series incorporating new seasonal factors as well as benchmark and certain other statistical adjustments would be published in late January.

M_1 —which had declined in October—rose sharply in November. Growth in M_2 and M_3 was substantial, as inflows of consumer-type time and savings deposits to banks strengthened while inflows to nonbank thrift institutions remained relatively favorable. Long-term interest rates have fluctuated in a narrow range in recent weeks, while short-term market rates have risen somewhat.

In light of the foregoing developments, it is the policy of the Federal Open Market Committee to foster financial conditions that will encourage continued economic recovery, while resisting inflationary pressures and contributing to a sustainable pattern of international transactions.

To implement this policy, while taking account of developments in domestic and international financial markets, the Committee seeks to maintain prevailing bank reserve and money market conditions over the period immediately ahead, provided that monetary aggregates appear to be growing at about the rates currently expected.

Votes for this action: Messrs. Burns, Volcker, Baughman, Coldwell, Eastburn, Holland, Jackson, MacLaury, Mayo, Mitchell, and Wallich. Votes against this action: None.

Absent and not voting: Mr. Bucher.

Subsequent to the meeting, on January 12, the available data suggested that in the December–January period both M_1 and M_2 would grow at rates below the lower limits of the ranges of tolerance that had been specified by the Committee. In recent days the Manager had been aiming at a Federal funds rate of $4\frac{7}{8}$ per cent, and the rate had been in an area of $4\frac{3}{4}$ to $4\frac{7}{8}$ per cent.

The significance of the apparent weakness in the aggregates was highly uncertain, because of the effects of the recent introduction of business savings accounts at commercial banks and because the revised seasonal adjustment factors employed were still under review. The problems of seasonal adjustment were particularly acute for the months of December and January. For these technical reasons, and in view of more favorable recent economic statistics—including the latest data on employment and retail sales—Chairman Burns recommended that the Manager be instructed to hold the weekly average Federal funds rate at the approximate level of $4\frac{3}{4}$ per cent until the Committee's next meeting. All members of the Committee, with the exceptions of Messrs. Eastburn and MacLaury, concurred in the Chairman's recommendation.

Federal Reserve Operations in Foreign Currencies

The Federal Reserve System intervened in the exchange markets in 1975 to preserve orderly markets and to smooth out fluctuations in rates deemed to be temporary and reversible. System purchases of foreign currency grossed \$1,494.4 million for the year, exceeding sales by approximately \$200 million. Most of the System sales of foreign currencies occurred during the first quarter, when the dollar was depreciating on the exchanges. The System financed these sales of foreign currency by drawing on its swap lines with foreign central banks. Between April and July, as the dollar firmed from its March low, the System acquired sufficient foreign currency to repay fully the series of swap drawings since the fall of 1974.

The dollar had begun to depreciate against foreign currencies in September 1974, as the U.S. economy moved into deep recession and as U.S. interest rates declined relative to those abroad. The decline in the value of the dollar continued through the first quarter of 1975, as economic activity in the United States continued to decline more rapidly than activity abroad. During the first 3 months of 1975, the System sold \$880 million, net, of foreign exchange.

As the dollar recovered in the second quarter, the System bought \$607 million of foreign exchange for swap repayment. In July the dollar advanced sharply amidst growing signs of a U.S. economic recovery and of rising U.S. interest rates, and as the U.S. trade account continued in strong surplus. By the end of July, the System had fully repaid all the swap drawings initiated since the fall of 1974. For the remainder of the year, the System's purchases and sales of foreign exchange in the market were small, resulting in net purchases of \$110 million equivalent.

On December 2 the pre-August 1971 Belgian franc swap contract was rewritten to reflect the U.S. dollar devaluations in December 1971 and in February 1973 and the Belgian franc revaluation in 1971. The rewriting raised the dollar equivalent of the swap drawing from \$268 million to \$316 million and resulted in a book loss of \$54 million for

the System. As of the end of December, the Federal Reserve had repaid \$18 million on this swap commitment.

On December 30 the pre-August 1971 Swiss franc swap contract was also rewritten to reflect the two devaluations of the dollar. The rewriting raised the dollar equivalent of this swap drawing from \$971 million to \$1,167 million and resulted in a book loss of \$196 million for the System. The System purchased, net, \$13.2 million equivalent of Swiss francs during December, which were to be held in balances for swap repayment.

In August the Federal Reserve swap line with the Bank of Mexico was increased from \$180 million to \$360 million. In September and October the Bank of Mexico drew the entire \$360 million, which it fully repaid in December.

At the year-end outstanding System swap indebtedness totaled \$1,465 million equivalent, reflecting the rewritten value and the partial liquidation of the pre-August 1971 swap drawings. On December 31, 1975, the System held \$80.3 million equivalent in foreign currencies compared with \$1.8 million at the end of 1974.

Legislation Enacted

SECURITIES ACTS AMENDMENTS OF 1975

An Act of Congress approved June 4, 1975 (Public Law 94-29), among other things:

1. Increases and more clearly defines the authority of the Securities and Exchange Commission (SEC) over national securities exchanges, registered securities associations, and other "self regulatory organizations."

2. Authorizes the SEC to regulate the form and format of securities.

3. Requires institutional investment managers that exercise investment discretion with respect to certain accounts to file reports with the SEC.

4. Provides for the regulation of municipal securities dealers (including banks or divisions or departments of banks that deal in municipal securities for their own accounts).

5. Provides that reports concerning missing, lost, counterfeit, or stolen securities be made in accordance with such rules as the SEC may prescribe, such reports and inquiries to be made by all member banks of the Federal Reserve System and banks insured by the Federal Deposit Insurance Corporation (FDIC), provided, with respect to banks, the SEC may delegate its authority regarding these provisions to the appropriate bank regulatory agency.

6. Provides for the regulation of clearing agencies, securities depositories, and transfer agents, and provides that with respect to any clearing agency, securities depository, or transfer agent that is a bank, the SEC and the appropriate regulatory agency shall consult with each other prior to conducting an examination, and the appropriate regulatory agency shall assume primary examination responsibility for such clearing agency, securities depository, or transfer agent. It also directs the SEC to take steps to end the physical movement of securities certificates in connection with settlement among brokers and dealers and restricts State authority to impose taxes on the transfer of securities through, and on deposits of securities with, a clearing agency, securities depository, or transfer agent.

PURCHASE OF GOVERNMENT OBLIGATIONS BY FEDERAL RESERVE BANKS

An Act of Congress approved November 12, 1975 (Public Law 94-125), extends through November 1, 1976, 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 in the open market or directly from or to the United States.

REVENUE ADJUSTMENT ACT OF 1975

An Act approved December 23, 1975 (Public Law 94-164), continues the 1975 tax cut reductions, at an \$8.4 billion level, through June 30, 1976, by, among other things,

1. Providing 6 months of tax cuts for individuals, sufficient to allow present withholding rates to remain unchanged.

2. Incorporating a statement of principle that, subject to economic conditions or unforeseen circumstances, any additional tax cuts—that is, beyond June 30, 1976—will be accompanied by dollar-for-dollar reductions in Federal spending.

3. Increasing the minimum and maximum standard deductions for individuals for 6 months.

4. Increasing the tax credit for individuals to the larger of \$35 per capita or 2 per cent of the first \$9,000 of taxable income.

5. Increasing the low income allowance.

6. Extending for 6 months the temporary increase in the corporate surtax exemption (to \$50,000) and temporary decrease (to 20 per cent) for the tax rate on the first \$25,000 of corporate profits.

TAX REDUCTION ACT OF 1975

An Act of Congress approved March 29, 1975 (Public Law 94-12), provides a \$22.8 billion tax cut by amending the Internal Revenue Code of 1954 to, among other things:

1. Provide a 10 per cent rebate of 1974 taxes up to a maximum of \$200.

2. Temporarily (for 1975), (a) increase the low income allowance, (b) increase the percentage standard deduction to 16 per cent of adjusted gross income up to a maximum of \$2,600, (c) provide a \$30

tax credit for each \$750 personal exemption, and (d) provide a 10 per cent earned income credit for certain low income taxpayers.

3. Provide an increase in the income limitation for the deduction of child care expenses from \$18,000 to \$35,000.

4. Authorize a tax credit of 5 per cent of the purchase price of a new principal residence, up to \$2,000.

5. Extend the time in which a taxpayer must purchase a new principal residence in order to defer recognition of gain on the sale of a former residence from the present 1 year to 18 months, and if the taxpayer constructs a home, from the present 18 months to 2 years.

6. Provide a \$50 one-time payment to U.S. residents who receive a social security, supplemental security income, or railroad retirement benefit for the month of March 1975.

7. Authorize an increase in the investment tax credit.

8. Provide an increase in the corporate surtax exemption from \$25,000 to \$50,000 with a corresponding reduction of the tax rate on the first \$25,000 of corporate income from 22 per cent to 20 per cent.

RESPA AMENDMENTS

An Act of Congress approved January 2, 1976 (Public Law 94-205), amends the Real Estate Settlement Procedures Act of 1974 (Public Law 93-533), by, among other things, repealing the requirement that mortgage lenders must give home buyers a detailed list of settlement charges at least 12 days before actual settlement, and requiring instead: (1) that the lender must make a "good faith" estimate of the range of charges for specific settlement services likely to be incurred by the borrower at the time that the borrower applies in writing for a loan, and must provide each loan applicant with a Housing and Urban Development (HUD) informational booklet disclosing common settlement costs, and (2) that the person conducting the settlement must permit the buyer to inspect known cost information one business day prior to settlement and must provide the borrower with HUD's uniform settlement statement no later than at settlement, unless exempted by HUD regulations or waived by the borrower.

The new law also modifies the requirements with respect to the tax and insurance escrow accounts.

FLEXIBLE REGULATION OF INTEREST RATES AND DISCLOSURE OF HOME MORTGAGE DATA

An Act approved December 31, 1975 (Public Law 94-200), among other things:

1. Amends the Federal Reserve Act, as amended (12 U.S.C. Secs. 221 *et seq.*) to extend the authority by which the various Federal financial regulatory agencies set interest rate ceilings on deposits in financial institutions under their respective jurisdictions (Regulation Q) until March 1, 1977; to provide that any lessening or elimination of the interest rate differential existing between deposits in commercial banks and deposits in thrift institutions may become effective only by the Board of Governors of the Federal Reserve serving written notification upon the Congress of any such proposed reduction or elimination, and by both Houses of the Congress thereafter approving it by concurrent resolution; and to provide that in any case where the interest rate differential is so reduced or eliminated with regard to any category of deposits or accounts, then the maximum interest rate for Federally insured bank deposits must thereafter be equal to the highest interest rate established for Federally insured savings and loan associations for such category of deposits immediately prior to the elimination or reduction of the interest rate differential.

2. Amends the Depository Institutions Amendments of 1974 (Public Law 93-495), to extend the deadline for submission of interim and final reports by the National Commission on Electronic Fund Transfers to the President and the Congress to 1 and 2 years, respectively, to October 7, 1976, and October 7, 1977.

3. Enacts the "Home Mortgage Disclosure Act of 1975," which (a) requires the disclosure of mortgage loans by geographical area for depository institutions having more than \$10 million in assets that have home or branch offices located within standard metropolitan statistical areas; and (b) requires each such depository institution to compile, maintain for 5 years, and make available to the public for inspection and copying at the main office of the institution and at least one branch, the number and total dollar amount of mortgage loans that were originated or purchased by that institution during each fiscal year, itemizing separately the number and total dollar amount of (i) Federally related mortgage loans, (ii) mortgage

loans made to mortgagors who did not intend to reside in the property securing the mortgage, and (iii) home improvement loans; all required information is to be reported by census tracts where that information is readily available at a reasonable cost, otherwise by ZIP code; mortgage loans secured by property located within the institution's standard metropolitan statistical area are to be shown separately from mortgage loans secured by property located outside that area.

The Board of Governors is required by the Act to prescribe necessary implementing regulations and may exempt from the Act any State-chartered depository institution in States having mortgage disclosure laws that provide disclosure and enforcement requirements substantially similar to the new Federal Act. Enforcement of the Act is vested in the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the Federal Home Loan Bank Board (FHLBB), and the National Credit Union Administration.

The responsible Federal financial regulatory agencies, the Secretary of HUD, and the Director of the Bureau of the Census, with the FHLBB having primary responsibility, are to develop methods of matching addresses with census tracts to facilitate compliance with the Act. The FHLBB is also required to recommend to the banking committees of the Congress any additional legislation deemed appropriate.

The Board of Governors is directed to carry out a study to determine the feasibility and usefulness of requiring depository institutions located outside metropolitan areas to make disclosures comparable to those required by the Act, and to make a report to the Congress on the study within 3 years after enactment of the new law.

The Home Mortgage Disclosure Act will expire 4 years after its effective date.

NEW YORK CITY SEASONAL FINANCING ACT OF 1975

An Act approved December 9, 1975 (Public Law 94-143), authorizes the Secretary of the Treasury to make loans to the City of New York or its financing agent, as provided, upon written request of the city or financing agent, up to an aggregate amount of \$2.3

billion and at a 1 per cent higher interest rate than the current average market yield on outstanding obligations of the United States having comparable remaining maturity periods. Each loan is required to mature not later than the last day of the city's fiscal year in which it was made; and no new loans can be made unless all prior matured loans have been repaid.

The Act also authorizes a Government Accounting Office (GAO) audit, as appropriate, in connection with such loans, establishes the "New York Seasonal Financing Fund" in the U.S. Treasury for the purpose of making the loans authorized, and provides that the Secretary's authority to make these loans terminates on June 30, 1978.

EMERGENCY HOUSING ACT OF 1975

An Act of Congress approved July 2, 1975 (Public Law 94-50), among other things:

1. Establishes a mortgage foreclosure relief program pursuant to which the Secretary of HUD is authorized, through June 30, 1976, to make or insure emergency mortgage relief loans of up to \$250 monthly, for 24 months, on behalf of unemployed or underemployed homeowners who are temporarily unable to meet mortgage payments on their principal residence, are at least 3 months delinquent, are likely to be able to resume full mortgage payments in the future, and are facing probable foreclosure;

2. Requires, for 1 year following enactment, Federal bank supervisory authorities with respect to financial institutions in their jurisdiction, and the Secretary of HUD with respect to other mortgages, to (a) take appropriate action to encourage forbearance in residential mortgage loan foreclosures and (b) request such institution or mortgagee to notify the Federal bank supervisory authority, the Secretary, and the mortgagor, at least 30 days prior to instituting foreclosure proceedings.

3. Authorizes the FDIC to make advances to any insured bank to facilitate its participation in the program authorized.

4. Expands, and extends until July 1, 1976, the program by which the Government National Mortgage Association (GNMA) may purchase or commit to purchase qualified mortgages established under the Emergency Home Purchase Assistance Act of 1974.

SECOND LIBERTY BOND ACT AMENDMENTS

An Act of Congress approved November 14, 1975 (Public Law 94-132), amends the Second Liberty Bond Act (31 U.S.C. Sec. 757b) to increase temporarily the present public debt limit by \$18 billion to \$595 billion for the period ending March 15, 1976. Earlier enactments had temporarily increased the public debt limit to \$577 billion for the period ending November 15, 1975 (Act of June 30, 1975, Public Law 94-47), and to \$531 billion for the period ending June 30, 1975 (Act of February 19, 1975, Public Law 94-3).

COUNCIL ON WAGE AND PRICE STABILITY ACT AMENDMENTS OF 1975

An Act of Congress approved August 9, 1975 (Public Law 94-78), among other things:

1. Extends the Council on Wage and Price Stability Act from August 15, 1975, to September 30, 1977.
2. Authorizes the Council, (a) to require periodic reports for the submission of information maintained in the ordinary course of business; and (b) with respect to businesses having annual gross revenues exceeding \$5 million, to issue subpoenas for witnesses or documents relating to wages, costs, productivity, prices, sales, profits, imports, and exports, provided that information obtained from a single firm may not be disclosed to the public.

EMERGENCY PETROLEUM ALLOCATION ACT AMENDMENTS

An Act approved November 14, 1975 (Public Law 94-133), extends the Emergency Petroleum Allocation Act of 1973 to December 15, 1975. An earlier Act had provided an extension to November 15, 1975 (Act of September 29, 1975, Public Law 94-99).

FEDERAL SAVINGS AND LOAN ASSOCIATIONS AS CUSTODIANS OF INDIVIDUAL RETIREMENT ACCOUNTS

An Act of Congress approved July 25, 1975 (Public Law 94-60), clarifies the authority of Federal savings and loan associations to act as trustees and custodians of individual retirement accounts.

DEFENSE PRODUCTION ACT AMENDMENTS

Acts of Congress approved December 16, 1975 (Public Laws 94-152 and 94-153), among other things, extend the Defense Production Act of 1950 from November 30, 1975, through September 30, 1977, and provide that loan guarantees or other commitments made under Title III of the Defense Production Act of 1950, in addition to present limitations, must be authorized by the Congress in advance in appropriations acts. Earlier action had provided an extension of the Act through November 30, 1975 (Act of October 1, 1975, Public Law 94-100).

SHERMAN ANTITRUST ACT AND FEDERAL TRADE COMMISSION ACT AMENDMENTS

An Act approved December 12, 1975 (Public Law 94-145), entitled "Consumer Goods Pricing Act of 1975," amends Section 1 of the Sherman Antitrust Act (15 U.S.C. Sec. 1) and Section 5(a) of the Federal Trade Commission Act (15 U.S.C. Sec 45(a)) by repealing the Federal exemptions that protected State "fair trade" laws from challenge under the antitrust laws.

CONGRESSIONAL RESOLUTIONS

Board of Governors and FOMC to encourage lower long-term interest rates and appropriate monetary expansion

A resolution (H. Con. Res. 133) approved by the Congress (Senate: March 20, 1975; House: March 24, 1975) expresses the sense of the Congress that the Board of Governors and the Federal Open Market Committee: (1) pursue policies in the first half of 1975 so as to encourage lower long-term interest rates and expansion in monetary and credit aggregates appropriate to facilitating prompt economic recovery, and (2) maintain long-run growth in such aggregates to foster increased production, maximum employment, stable prices, and moderate long-term interest rates.

The resolution allows the Board to take into account international flows of funds and conditions in the international money and credit markets and calls upon the Board to consult semiannually with the House and Senate banking committees regarding the objectives

and plans of the Board and FOMC with respect to the ranges of growth or diminution of monetary and credit aggregates for the upcoming 12 months. These objectives are not required to be met if the Board and FOMC determine that they cannot or should not be achieved because of changing conditions. In such event, the Board shall report to the Congress the reasons for such determinations. (See page 113 for text of resolution.)

First concurrent budget resolution revising the congressional budget

The initial budget resolution (H. Con. Res. 218) approved by the Congress (House and Senate: May 14, 1975) for the 1976 fiscal year beginning July 1, 1975, set the appropriate Federal budget deficit at \$68.8 billion and set the appropriate increase in the temporary public debt limit at \$86.6 billion, to \$617.6 billion, based upon Federal outlays of \$367 billion and revenues of \$298.18 billion.

Second concurrent budget resolution revising the congressional budget

The second concurrent budget resolution (H. Con. Res. 466) approved by the Congress (Senate: December 11, 1975; House: December 12, 1975)—revising the congressional budget for the U.S. Government for the fiscal year 1976—(1) sets the appropriate Federal budget deficit, for the fiscal year beginning July 1, 1975, at \$74.1 billion and the appropriate level of the public debt at \$622.6 billion, based on a ceiling of \$374.9 billion for Federal outlays and a floor of \$300.8 billion for revenues, and (2) for the transition quarter beginning July 1, 1976 (arising from the change in the start of the fiscal year of the Federal Government from July 1 to October 1, pursuant to the Congressional Budget and Impoundment Control Act of 1974), sets the appropriate Federal budget deficit at \$15.7 billion and the appropriate level of the public debt at \$641.0 billion, based on Federal outlays of \$101.7 billion and revenues of \$86.0 billion.

Banking Reform

Developments in the banking industry over recent years have focused the attention of bankers, the public, and the bank regulatory agencies on matters of bank soundness and vitality.

Since the first half of 1974, the Board of Governors has been studying with particular care the relationship of Federal bank supervision and regulation to the maintenance of sound banking conditions. During 1975, this study produced a series of legislative recommendations for improving bank supervision and led to a strengthening of Federal Reserve procedures for identifying, monitoring, and correcting troublesome areas.

The Board came to two fundamental conclusions:

First and foremost, it is the Board's considered judgment that the Nation's central bank should be closely involved in the process of bank regulation and supervision precisely because bank supervisory standards need to be formulated with their relationship to monetary policy and to the national economy in mind.

The second broad conclusion is that some strengthening of supervisory authority is desirable. In all supervisory and regulatory matters, the standards of professional examination must be respected. That objective is not inconsistent, however, with the use of standards that take account of broader domestic and international consequences.

The Board's policy actions and its congressional testimony on this subject during 1975 were based on the view that the relationship between monetary and regulatory policy has grown in importance in recent years because of a number of factors, including increased sophistication of economic policy-making; faster gathering, dissemination, and analysis of increased amounts of economic data; and improved technology affecting money markets and the payments mechanism. This means that the role of the Federal Reserve as monetary policy-maker and as lender of last resort interacts more sensitively than ever before with the effects of prevailing bank supervisory and regulatory policies. Each of these areas of public policy

increasingly influences the effectiveness of the other. The Board's policy is based on the conviction that to divorce them is to weaken both.

Fundamentally, monetary policy works by affecting the liquidity position of banks and the financial system. Good bank supervision should examine the liquidity of individual banks and urge the correction of inappropriately thin or exposed positions. But if bank supervisory policy is set without a full understanding of broad economic developments or of the trend of monetary policy, the supervisor can impel ill-timed banking actions. Among the most unfortunate examples of such a narrow supervisory vision were the enforced write-downs of bank assets to the unrealistically depressed market values reached during the Great Depression.

On the other hand, if the bank supervisor sets liquidity standards that are too low, or sets none at all, or changes them at an inopportune moment, he can dilute or frustrate the thrust of monetary policy. Bank capital standards set by supervisors also interact with both national economic and monetary policy. Supervisory rules that require banks to raise their capital ratios or that make it more difficult for banks to raise capital can reduce the availability of bank funds to prospective borrowers and thus slow the rate of growth of bank credit and money and possibly interfere with the financing of economic recovery.

There are two other important aspects of interaction between supervisory and monetary considerations that the Board regards as of primary importance at all times.

First, bank supervisory activities provide a flow of information concerning detailed developments inside the banking system that can be of inestimable value to monetary policy-makers. Examiner asset evaluations supply first-hand knowledge of the changing quality of credit, and of the quality of bank management that is administering that credit.

This information provides to the monetary agency important insights into bank policies regarding liability management practices and bank participation in various types of credit markets. This kind of information also provides valuable supplements to the meaning of the quantitative statistics on monetary and credit aggregates.

Other implications for monetary policy may arise in the field of international banking activities. Changes in bank rules or examiner standards could generate flows of funds into or out of the United States that could markedly alter the international balance of payments and the foreign exchange value of the dollar.

BANKING PROBLEMS SURFACED

Early in the Board's review of Federal bank supervision, attention was focused on a number of specific problem areas: (1) need for improvement in the handling and resolution of cases involving banks and bank holding companies requiring special attention; (2) decline of bank capital ratios; (3) reliance on liability management; (4) loan commitments; (5) quality of bank assets; (6) foreign exchange; and (7) bond trading departments.

In view of the then-recent experiences with two large failing banks—the United States National Bank of San Diego and the Franklin National Bank—priority attention was directed toward identifying and preventing such situations in the future. Each Federal Reserve Bank was asked to make special efforts to identify member banks in its district that might face difficulties with regard to the quality of their assets or the balancing of financing needs with the availability of funds. Throughout the year Federal Reserve examiners devoted a greater-than-usual amount of time and attention to banks with identified difficulties. In each such case a specific program for remedying the difficulties was established, including, whenever necessary, direct discussions with the bank's directors to reinforce the commitment of top management. Any member bank experiencing unusual liquidity difficulties was informed of the basis on which accommodation at the discount window would be made available.

Subsequently, as a result of this program, the Board adopted procedures designed to insure that proper attention was being given to troublesome areas. This formalized the corrective actions that the Board and the Reserve Banks had already started to use.

All of these steps were part of a program designed to place greater emphasis on identifying, monitoring, and following up on individual banking situations that appeared to call for special attention. It was recognized, however, that it was not possible for supervisors to correct all bank difficulties and that sometimes remedial actions, no matter

how actively pursued, cannot succeed in preventing a bank failure. In that eventuality, in order to prevent depositor loss and disruption of financial services to the community, the most desirable solution is usually for the failing bank to be taken over by another bank. Bank mergers, where permitted by State branching laws, can often serve this purpose. Alternatively, the failing bank can be taken over by a bank holding company, so it can continue to serve its community as a healthy unit of a banking system.

However, the alternative of bank holding company acquisition of a failing bank is impeded by two Federal statutory limitations, which the Board has asked the Congress to remedy. The law permits the waiver of certain time delays in the case of the emergency merger of a failing bank. The Board has recommended that comparable waiver authority be authorized for bank holding company acquisitions of failing banks. Another provision of the Bank Holding Company Act prevents holding company acquisition of banks across State lines. In the case of a large failing bank or bank holding company this prohibition may raise serious antitrust implications in connection with eligible purchasers within the State and may also severely limit the number of potential domestic acquirers. This statutory limitation thus may operate in a manner contrary to the public interest. The Board has recommended that in certain limited situations involving a bank or a bank holding company with assets in excess of \$500 million, there should be authority to permit an out-of-State holding company acquisition. (See Legislative Recommendations on pages 270-71 of this REPORT for details.) The Board continues to believe that prompt action on both proposed amendments is desirable.

In its consideration of other potentially unsafe or unsound practices, the Board, along with the Comptroller of the Currency and the Federal Deposit Insurance Corporation, concluded that additional statutory assistance was necessary. On behalf of all three agencies, Chairman Burns submitted recommendations to the Congress on September 5, 1975. These proposals include: (1) providing civil penalties for several violations of the banking laws where there are no effective penalties at present; (2) broadening the coverage of insider lending limitations; (3) simplifying and making more effective the officer removal authority contained in the Financial Institutions Act of 1966; and (4) under certain limited circumstances, and subject

to procedural safeguards, authorizing divestiture of a subsidiary or termination of a nonbanking activity of a bank holding company. (See pages 271-72 of this REPORT for details.)

The Federal bank regulatory agencies have revised the report of condition and the report of income filed by all insured commercial banks. The revised reports should provide the public with improved information about the financial situation of banks.

Action has been taken to promote the early detection of banks with difficulties through an early warning system put into effect by the Board in cooperation with both the Federal and State banking supervisory agencies. This system enables the bank regulators concerned to be made aware promptly of any adverse findings uncovered in examinations of bank holding companies or their bank subsidiaries.

The Board has increased its efforts to improve the supervision of bank holding company activities by more strict surveillance of bank holding company financial affairs and intracompany transactions. The inspection program for bank holding companies and nonbank subsidiaries has been increased so that financial difficulties may be identified as early as possible. These inspections also afford an opportunity to check on compliance with the Bank Holding Company Act and regulations.

Reporting requirements have been introduced to furnish the Board with timely information about the full scope of holding company activities, including intracompany transactions. Prompt notice of transactions involving large amounts or a large proportion of the holding company's income or assets is required.

COMMUNICATIONS TO BANKS REGARDING SUPERVISORY MATTERS

The Board took two actions during the past year to sharpen bank and bank holding company awareness of their responsibilities under the Bank Holding Company Act and of results that could flow from violations.

In a letter dated November 3, 1975, the Board asked the Presidents of the Federal Reserve Banks to advise all bank holding companies that they would be held strictly accountable for compliance with both procedural and substantive requirements of both the Bank

Holding Company Act and of the Board's Regulation Y. The Board also said that it will continue to refer to the Department of Justice, for possible criminal violation, any apparently willful violations, and that an illegal acquisition—whether or not it appeared to have been willful—could be grounds for denial of an application for permission to retain the illegally acquired activity.

A later communication from the Board to the chief executive officers of all bank holding companies cautioned that situations in which a bank in a bank holding company bought assets of poor quality from a nonbanking subsidiary of the holding company at prices higher than would result from arm's-length dealing could have serious consequences. The Board said such purchases could be found to be in violation of Section 23A of the Bank Holding Company Act, could possibly subject the holding company to cease-and-desist proceedings, and could constitute a misapplication of bank funds possibly giving rise to criminal liability.

Additional measures to improve and speed bank examination are under active consideration. Part of the improved monitoring of possible unsafe and unsound bank practices is the increased use of sophisticated reporting and management information systems to supplement the bank examination process.

With respect to loan commitments, amendments to Regulation H have been adopted requiring State member banks to treat standby letters of credit and ineligible acceptances in the same manner as loans for the purposes of statutory lending limits. Work is continuing on means of detecting and limiting excessive loan commitments and poor quality bank loans.

Extensive attention has also been given to bank capital and liquidity. The Board restructured reserve requirements on time deposits to encourage prudent liquidity management at banks. Steps were also being studied to permit greater flexibility by banks in the issuance of notes and debentures to improve their capital structure. Proposed guidelines for evaluating requests for approval of new subordinated debt issues by State member banks have been released for comment by the Board.

The Board is mindful that while continued attention is needed to improve capital ratios and provide adequate liquidity and to

improve the quality of bank loans, supervisory pressure can be overdone. Excessive supervisory restrictions in the environment of 1975 could have deterred bank willingness to lend, even to the extent of interfering with the financing of sound economic recovery.

The Board's considerations have included international banking, both the operations of U.S. banks abroad and of foreign banks in this country. On March 4, 1975, the Board submitted a proposal for legislation establishing a system of Federal regulation and supervision for operations of foreign banks in the United States. (See pages 272-74 of this REPORT for details.)

Special attention has been given to the foreign exchange operations of U.S. banks where the risks of loss have increased as a result of both floating exchange rates and the growth in the worldwide volume of foreign exchange transactions. A review was conducted by the Board, in consultation with the Comptroller of the Currency, of a sample of banks engaged in such activities. This review concluded that additional legislative authority is not needed to provide adequately for the supervision of foreign exchange operations. Where necessary, banks have been encouraged to improve internal audit and control procedures. The Federal Reserve and the Comptroller are increasing the surveillance of foreign exchange operations through examinations and reporting systems.

In December 1975 the Board issued a proposed statement of policy concerning the participation in foreign joint ventures by U.S. banking organizations. The Board stated that, along with other factors, in considering whether to approve an application to invest in a foreign joint venture, it proposed to take into account the possibility that the venture might need additional financial support and the possibility that such additional support might be significantly larger than the bank's original equity investment.

The Board has suggested to the Congress two other possible actions in the supervisory field:

In early 1976 the Board proposed a program of systematic congressional oversight of the Federal bank examination function. The essence of this proposal was for the Board to provide the banking committees of the House and Senate periodically with statistical information and analyses that would relate to the conduct of the bank examination process and the condition of banks.

In late 1975 and again in early 1976, the Board was asked by the Congress to consider the desirability of significant change in the structure of the Federal bank regulatory agencies. In response, the Board stated in congressional testimony that it believed remedial supervisory action could be accomplished without a change in the structure of the bank regulatory agencies. If, however, the Congress felt the need for some type of restructuring, there were two possible courses that had gained strong support within the Board—namely, the creation of a Federal bank examination council to focus on uniform examination procedures, or consolidation of the functions of the Office of the Comptroller of the Currency within the Federal Reserve. Either change would assist in the proper and efficient coordination of supervisory activities.

Legislative Recommendations

BANKING SUPERVISION AND REGULATION

As part of its continuing study of the broad area of banking supervision and regulation, the Board of Governors has transmitted to the Congress the following legislative recommendations designed to improve the performance of banking and bank regulation.

Acquisition by holding company of a "failing bank"

On February 9, 1975, the Board of Governors sent to the Congress draft legislation that would allow the Board to:

1. Approve promptly an acquisition, consolidation, or merger under Section 3 of the Bank Holding Company Act when the bank or bank holding company to be acquired is in severe financial difficulty.

The proposal parallels existing authority in the Bank Merger Act (12 U.S.C. Section 1828(c)). It provides that comments by a bank supervisory agency concerning a proposed acquisition of a bank or a bank holding company in an emergency situation may be requested to be submitted in 10 days rather than 30 days, and that the time delay for consummation would be 5 days instead of 30 days. The Board would also be authorized to waive the waiting periods and notice and hearing provisions entirely and to act immediately when it determines that action is necessary to prevent the probable failure of a bank or bank holding company.

2. Approve the acquisition by an out-of-State bank holding company of a troubled bank in certain emergency and failing bank situations.

Under existing law, out-of-State acquisitions by a bank holding company are prohibited unless the acquisition is specifically sanctioned by State law. Since with one limited exception no State has enacted a law specifically permitting such an acquisition, remedial Federal legislation is in order to deal with emergency situations. The requested authority would be used only in cases in which the size or

other special characteristics of a bank or bank holding company and the probable widespread effects of its failure warrant invoking an exception to the general policy set out in the present law.

Both recommendations would give Federal banking authorities necessary flexibility in resolving these situations in the public interest.

Civil penalties for violations of banking laws

On September 5, 1975, the Board of Governors transmitted to the Congress draft legislation intended to prevent or correct certain troublesome situations in which supervised banks may violate various provisions of law. Such violations could be of a type that might have an adverse effect on the safety or soundness of the banks and for which no effective remedy exists under present law. The Comptroller of the Currency and the FDIC joined in recommending similar legislative proposals for application to banks under their jurisdiction.

The proposed legislation seeks to correct such situations partly by authorizing specific civil penalties against member banks, their officers, directors, employees, and agents for various violations of Federal banking laws and regulations.

In addition to recommending penalties, the Board's draft bill would aggregate the loans or extensions of credit to an insured bank's officers and directors, to individuals holding more than 5 per cent of the bank's voting securities, and to all companies controlled by such officers, directors, or 5 per cent shareholders, and would provide that the aggregate may not exceed the limit on loans to one borrower established by applicable Federal or State law.

The Board's draft bill would also authorize the Board to require divestiture by a bank holding company of a subsidiary, or termination of a nonbanking activity by a bank holding company, whenever the continuation of such ownership or activity threatened the safety, soundness, or stability of the bank holding company's subsidiary banks.

The recommended legislation would make clear the Board's cease-and-desist authority over member bank directors, officers, employees, agents, or other persons participating in the conduct of the bank's affairs, who are charged with unsafe or unsound practices or violations of law, without regard to whether the bank itself is named in the

proceeding. Similarly, the proposal would make clear the Board's cease-and-desist power with respect to officers, directors, employees, and agents of a bank holding company, and to Edge Act and agreement corporations whether or not they are subsidiaries of a holding company.

The recommended legislation would also authorize removal, suspension, and related proceedings against directors and officers of insured banks for personal dishonesty or gross negligence in the operation or management of the bank or for willful disregard for the safety or soundness of the bank.

Regulation of foreign banks

On March 4, 1975, as an outgrowth of the work of the Federal Reserve System Steering Committee on International Banking Regulation, the Board of Governors sent to the Congress draft legislation to establish a national policy on foreign banks operating in the United States and to provide a system of Federal regulation and supervision of those operations. The Board is convinced, in light of the growing importance of foreign banks in the functioning of U.S. money and credit markets and their increasing impact on the structure of the banking system, that the time has come for the establishment of a national policy on the entry and operations in the United States of foreign banking institutions.

The underlying principle embodied in the draft legislation is national treatment, or mutual nondiscrimination, a principle long advocated by the United States in its international economic and financial relations. Following this principle the legislation would subject the entry and activities of foreign banks to the same rules and regulations as comparable domestic banking institutions. The legislation would also provide for a Federal presence in the licensing and supervision of foreign bank operations in order to assure uniformity of treatment and a national approach to multinational banking issues.

The principal provisions of the draft legislation are the following:

Coverage. The scope of coverage of the Bank Holding Company Act would be redefined to include branches and agencies—as well as subsidiaries that are presently covered—of foreign banks, bringing

nearly all foreign banks with depositary and lending functions in the United States under the Bank Holding Company Act.

National treatment. In addition to bringing virtually all foreign bank operations in the United States under the Bank Holding Company Act, the Act would provide equality of treatment with respect to domestic banking by facilitating foreign ownership of national banks, by enabling the licensing of a Federally licensed branch, and by requiring insurance by the FDIC of deposits in branches and agencies.

Entry alternatives. The National Banking Act would be amended to permit up to one-third of the directors of a national bank—all of whose directors must now be U.S. citizens—to be foreigners. The Comptroller of the Currency would also be empowered to license branches of foreign banks to conduct a banking business in any State on essentially the same basis as a national bank.

Edge Act corporations. The section of the Federal Reserve Act dealing with the establishment of Edge Act corporations—subsidiaries of member banks in the United States that conduct international banking operations—would be amended to allow foreign banks to establish Edge Act corporations, thereby enabling them to conduct an international banking and financing business throughout the United States on the same basis as domestic banks, without majority control by U.S. citizens.

Federal Reserve membership. Membership would be required for branches, agencies, and subsidiaries of a foreign bank when the parent foreign bank had worldwide bank assets exceeding \$500 million. This provision would subject such foreign-owned banking operations to all U.S. monetary regulations and requirements, and also would make all Federal Reserve services and credit facilities available to them.

Grandfathering. Multistate banking operations of foreign banks established on or before December 3, 1974 (the date the legislation was originally introduced in the 93rd Congress), would be permanently grandfathered and could be expanded, where existing, in accordance with State law. Nonbanking interests of foreign banks

covered by the legislation would also be permanently grandfathered if acquired on or before December 3, 1974. This includes securities affiliates of foreign banks in the United States.

Federal Government presence. To assure a consistent national policy toward foreign banks and to enable consideration of international financial relations in the entry of foreign banks, the draft legislation provides that a Federal banking license be obtained for all banking facilities of foreign banks, whether organized or operating under State or Federal law. The Comptroller of the Currency is designated as the Federal licensing agent for this purpose. However, the Secretary of the Treasury would have to approve the issuance of any such license, and before granting approval, he would be required to consult with the Secretary of State of the United States and the Board of Governors of the Federal Reserve System.

Exchange information. To facilitate discussions and agreements with foreign authorities on multinational banking issues, a provision of the draft legislation authorizes the Federal supervisory authorities—the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, and the FDIC—to enter into mutual arrangements with foreign bank supervisory authorities for the interchange of information on banking institutions.

Retention by holding company of bank stock acquired as a result of debt previously contracted

Section 4 of the Bank Holding Company Act authorized 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.

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 depository institutions in the same or an adjacent community, with an appropriate delay to permit a gradual phasing out of prohibited relationships.

In one respect the Board considers the existing law to be 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 officer, or an employee with management functions."

Loans to bank examiners

Title 18 of the U.S. Code, "Crimes and Criminal Procedures," 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 that he or she is prevented from obtaining other forms of bank credit, such as loans to finance the education of 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.

MONETARY POLICY

Reserve requirements

On June 26, 1975, the Board of Governors submitted draft legislation that would extend reserve requirements set by the Federal Reserve to nonmember financial institutions. The Board's proposed bill would also revise downward the permissible range of reserve requirement ratios for various classes of deposits and would expand the Federal

Reserve Banks' authority to lend directly to nonmember institutions that are subject to reserve requirements set by the Federal Reserve.

The basic principle underlying this recommendation is that equivalent cash reserve requirements should apply to all deposits that effectively serve as a part of the public's money balances, whether the deposits are at member banks, nonmember banks, or other financial institutions. At present, deposits at nonmember banks and thrift institutions continue to expand more rapidly than deposits at member banks, which means that an increasing part of the Nation's money supply is lodged at financial institutions that are not subject to reserve requirements set by the Federal Reserve. State reserve requirements that secure nonmember bank deposits vary as to amount and are not confined to a form of reserve assets that suffices for monetary purposes. Similarly, the liquidity requirements applicable to nonbank thrift institutions do not meet the requisites of reserve requirements set by the Federal Reserve.

The Board's proposed legislation would establish a uniform system of reserve requirements, applicable to all commercial banks, mutual savings banks, savings and loan associations, and other depository institutions. The effectiveness of monetary policy would be enhanced by the resultant tightened relationship between bank reserves and the Nation's deposits, and equity in competition among similar financial institutions would also be fostered.

Lending authority of Federal Reserve Banks

As a complement to the Board's recommendation regarding the extension of reserve requirements to certain deposits in nonmember financial 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 that are secured by obligations eligible either for purchase or for discount by the Reserve Banks.

Under Section 10(b) the Reserve Banks are authorized to extend to member banks credit secured simply by collateral viewed as satisfactory by the Reserve Banks. However, Section 10(b) also provides

that such credit extensions "shall bear interest at a rate not less than one-half of 1 per centum per annum higher than the highest discount rate in effect" at the Reserve Bank making the loan (except for such advances secured by mortgages on 1- to 4-family homes). The result is that many 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.

CONSUMER AFFAIRS

Truth in Lending

As part of its continuing responsibility for administration of consumer credit legislation, the Board of Governors annually submits to the Congress recommendations for improvement of the Truth in Lending Act and the other consumer credit legislation under its regulatory authority. This year the Board has focused its attention primarily on recommendations to simplify the numerous and often complex disclosure requirements of the Truth in Lending Act. The recommendations are as follows.

Credit life and disability insurance. Under the Truth in Lending Act, premiums for credit life and disability insurance need not be included in the finance charge if the insurance coverage is offered to the customer on an optional, voluntary basis. Evidence from the Federal Trade Commission and the results of a survey study by Ohio University¹ indicate that penetration rates approaching 100 per cent are being achieved by certain creditors in the sale of such insurance. These high penetration rates raise the question whether some creditors may be leading borrowers to believe that insurance coverage is necessary to obtain the loan, despite disclosures to the contrary. The Ohio University survey found that nearly 20 per cent of those consumers who purchased credit life insurance and nearly 15 per cent of those who purchased credit disability insurance believed, either because of

¹ *Consumer Credit Life and Disability Insurance*, edited by Charles Hubbard, The College of Business Administration, Ohio University, 1973.

misrepresentation or misunderstanding, that the insurance was required to obtain credit.

In light of this evidence, the Board feels that some remedial legislation is warranted. The Board recommends that the Act be amended to require that, in order for credit insurance to be classified as voluntary and excluded from the finance charge, the creditor must grant an absolute right of insurance cancellation for a reasonable time after its purchase. If, within that time period, a customer decides that he or she does not want the credit insurance, the customer could cancel the insurance and receive a full refund of all premiums paid.

Consolidation of annual reports submitted by the Board. The Truth in Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Improvement Act each contain a provision requiring the Board to submit annual reports to the Congress detailing administration of the regulatory authority conferred on the Board under those Acts. The logical manner for submitting these annual reports, and one that avoids duplication of effort, is as components of the Board's ANNUAL REPORT on Federal Reserve operations, which is an overview of all Federal Reserve activities. However, this is not possible because the Acts require submission of the Truth in Lending report by January 3, the Equal Credit Opportunity report by February 1, and the Federal Trade Commission Improvement report by March 15.

The Board is not aware of any benefits produced by these fragmented reports. Therefore, the Board recommends that the dates specified for submission of annual reports under the Truth in Lending Act, the Equal Credit Opportunity Act, and the Federal Trade Commission Improvement Act be deleted and that the Congress allow the Board to submit the annual reports required by those Acts at the same time and as components of the Board's ANNUAL REPORT on operations.

Credit-card issuance and liability. Section 133 of the Truth in Lending Act limits cardholder liability in the event of unauthorized use of an accepted card to \$50. This liability limitation applies to some cards used in automated teller machines, which, because the cards have credit aspects (such as overdraft privileges) attached to them, are considered credit cards under the Act. However, no similar

liability limitations are provided for non-credit cards used in automated teller machines to transfer funds, but to which no credit aspects are attached.

The Board feels that there is no reason for the divergent treatment accorded credit cards and non-credit cards under the Act. Unauthorized use of a non-credit card could potentially result in substantial withdrawal of a cardholder's savings and checking balances. Consistency in the treatment of non-credit cards and credit cards with respect to liability for unauthorized use would eliminate confusion and would probably assuage consumer fears and facilitate public acceptance of non-credit cards to the benefit of both consumers and card issuers. Public acceptance of non-credit cards would further advance electronic fund transfer systems (EFTS). Such cards are widely recognized as being an essential precursor component of EFTS.

The Board, therefore, recommends that the scope of Section 133 be expanded to cover non-credit cards within its limitation on liability for unauthorized use. For the same reason, the Board also recommends that the scope of Section 134 of the Act, which provides for fines of up to \$10,000 and imprisonment for up to 10 years for fraudulent use of a credit card, be expanded to apply to the fraudulent use of non-credit cards as well.

The Board also suggests that the Congress reconsider the continuing need for Section 132 of the Act, which prohibits the unsolicited issuance of credit cards. The solicitation requirements of this section have posed marketing hurdles that have hindered the entry of new competition into the credit-card field. In the Board's view the profligate card-issuance abuses that the Congress sought to correct by this section could perhaps be effectively policed by the rule of Section 133, which provides that there is no consumer liability for the unauthorized use of an *unaccepted* credit card. Further investigation by the Congress may indicate that the prohibition on unsolicited issuance could be relaxed or eliminated with no adverse effect on consumers while encouraging competition in the credit-card field.

Periodic statements—Credit other than open end. Section 126 of the Truth in Lending Act requires creditors who choose to transmit periodic billing statements in connection with credit other than open end to include the annual percentage rate, the date by which payment must be made in order to avoid additional finance charges or other

charges, and any other items required by the Board. There is no requirement that creditors send such periodic statements, but if they do, the disclosures enumerated must be indicated.

The Board questions the need for this provision. Since such periodic statements are not uniformly required for all extensions of credit other than open end, the rule seems to impose an unnecessary burden on those creditors who do send such payment reminders. The Board suggests that this provision could be deleted without any serious negative impact on consumers.

Charges payable in the event of late payment, delinquency, or default. Sections 128(a)(9) and 129(a)(7) of the Act require creditors, in making disclosures with respect to loans and credit sales not under open-end credit plans, to disclose “the default, delinquency, or other similar charges payable in the event of late payments.” Basically, this language has been reiterated in Regulation Z.

Because of the reference to “default,” the language could be construed to require disclosure of any charges that a debtor may be obligated to pay in the event of default on a loan. For example, the language could be interpreted to include all charges assessed against a debtor in the event that a judgment must be taken against him or her. It might also be interpreted to include those charges that a debtor may have to pay should it be necessary to repossess the collateral. A number of courts have recently held that the act of acceleration of a defaulted credit contract is a charge that requires disclosure. The purpose of the Truth in Lending Act is to provide meaningful disclosures of credit terms, so consumers can shop for credit in an informed manner. It is highly questionable whether disclosure of the charges payable in event of default is meaningful information for consumers. On the other hand, it seems appropriate that the consumer know the additional charges that may be assessed in the case of a delinquency or a late payment.

The Board suggests that Sections 128(a)(9) and 129(a)(7) be amended to require disclosure only of charges payable in the event of delinquency or late payment.

Comparative index of credit costs. Under Section 127(a)(5) of the Act, the credit of an open-end credit account is permitted to

disclose “the average effective annual percentage rate of return received from accounts under the plan for a representative period of time.” This statutory provision has been translated into an entire section in Regulation Z, Section 226.11, which sets out the requirements with respect to making such optional disclosures. It is the Board’s understanding that such optional disclosures are rarely, if ever, used. The Board suggests, therefore, that Section 127(a)(5) be deleted from the Act.

Right of rescission—Vacant lots. Section 125 of the Act provides consumers with a right of rescission for credit contracts involving a security interest in real property that is used or is expected to be used as the *residence* of the consumer. An exception to this right of rescission relates to first liens against a *dwelling* as security for a loan to finance the acquisition of that dwelling. The primary purpose of this right of rescission is to give a consumer some time in which to reconsider the important act of pledging the home as security for a loan. However, because of the distinction between the terms “residence” and “dwelling,” the right applies to transactions involving credit purchases of vacant lots that are intended ultimately to become the consumer’s residence.

The Board does not believe that the right of rescission should continue to be applicable to such vacant-lot purchase transactions. Furthermore, the Interstate Land Sales Full Disclosure Act gives the consumer a right of revocation for many such vacant lot transactions. Consequently, the Board recommends that the Congress consider amending the Act to limit the coverage of Section 125 to only those credit transactions in which a dwelling, as opposed to a residence, is involved.

Simplification of Truth in Lending. During the nearly 7 years that the Truth in Lending Act has been in effect, the Board has become aware of considerable criticism of the Act and of Regulation Z because of their complexity. Critics have argued not only that the numerous technical disclosures are burdensome for creditors but also that the disclosure statement is so lengthy and complicated that most consumers do not bother to read it. The criticism concludes that, in attempting to give consumers all the meaningful information they need

to make an informed credit decision, Truth in Lending legislation has gone too far and, in many cases, has only confused consumers with extraneous information not directly related to the costs of credit.

The Board has been concerned with the complexity of the Act and of Regulation Z for some time and has, in the past, made recommendations aimed at simplification of the Act's disclosure requirements. The Board feels that continued attention to simplification efforts is desirable. Simplification benefits both consumers and creditors by lessening the burden of disclosure while making those disclosures that are required more meaningful to the average consumer. The Board feels that efforts at simplification should be an ongoing project and expects that the views of members of the Consumer Advisory Council, which was established by the amendments to the Equal Credit Opportunity Act, will be very helpful in this endeavor.

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 participating 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.

The Board believes that authorization should be granted to cover investments in community corporations that could engage broadly in community welfare, regardless of whether established by private or by 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 for banks under their respective jurisdictions.

Litigation

During 1975 the Board of Governors was named in 20 lawsuits as compared with 21 filed in 1974 and 22 in 1973. Only 8 of the actions filed in 1975 raise questions under the Bank Holding Company Act, as opposed to 19 in 1974. While the number of cases challenging bank holding company orders has declined, the number of cases challenging Board procedures or actions in other areas has increased from 2 cases filed in 1974 to 12 in 1975. As of March 15, 1976, 22 cases were pending, 15 of which raise issues under the Bank Holding Company Act. A brief description of each case that remains pending or that was disposed of during 1975 follows:

BANK HOLDING COMPANIES—ANTITRUST ACTION

In 1975 the U.S. Department of Justice filed no challenges under the antitrust laws of the United States to acquisitions by registered bank holding companies or bank mergers that had been previously approved by the Board. Only one case remains pending from past years—*United States v. Michigan National Corporation et al.*, filed June 13, 1974, U.S.D.C. for the Eastern District of Michigan. The Department of Justice filed this suit to prevent consummation by Michigan National Corporation, Bloomfield Hills, Michigan, of the acquisition of two banks in Saginaw and Grand Rapids, Michigan. The acquisitions were approved by the Board in October 1973 (Federal Reserve *Bulletin*, October 1973, page 819). The Department of Justice alleges that the acquisitions will substantially lessen competition or will tend to create a monopoly in violation of Section 7 of the Clayton Act (15 U.S.C. Section 18).

The Justice Department originally filed suit against this acquisition and against the acquisition of two other banks in Lansing and Wyandotte, Michigan, by Michigan National in November 1973. The court dismissed these earlier suits as premature since the Comptroller of the Currency had not approved the proposed mergers. The Comptroller then acted on two of the four proposed mergers, and the

Department of Justice has brought suit again on the same grounds. Since that time, the Supreme Court has reversed the district court decision, thereby permitting the Justice Department to bring antitrust actions before the Comptroller grants final approval to the bank mergers (419 U.S. 1 (1974)).

BANK HOLDING COMPANIES—REVIEW OF BOARD ACTIONS

In *NCNB Corporation v. Board of Governors*, filed April 6, 1973, U.S.C.A. for the District of Columbia Circuit, petitioner requested the court to review and set aside a Board order (*Federal Reserve Bulletin*, 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 granted petitioner's motion to hold the appeal in abeyance pending the outcome of a suit filed by petitioner in the 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. Following a determination by the district court that the South Carolina statute was unconstitutional, the Court of Appeals remanded the case to the Board, which issued a revised order approving the application on April 29, 1975 (*Federal Reserve Bulletin*, May 1975, page 330).

In *Bankers Trust New York Corporation v. Board of Governors*, filed May 25, 1973, U.S.C.A. for the Second Circuit, petitioner requested the court to review and set aside a Board order (*Federal Reserve Bulletin*, May 1973, page 364) denying petitioner's application to engage in investment advisory activities through a newly formed subsidiary corporation at Palm Beach, Florida. In October 1973 the court granted petitioner's motion to hold the proceedings in abeyance until 40 days after the judgment or appeal from the judgment of the U.S.D.C. for the Northern District of Florida in a suit filed by petitioner challenging the constitutionality of the Florida statute prohibiting 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. The district court dismissed the suit as inappropriate for a three-judge district court. In a decision on appeal rendered April 14, 1975, the Supreme Court vacated the judgment of the district court and remanded the case so

that a new order may be entered from which a timely appeal can be taken to the Court of Appeals for the Fifth Circuit (421 U.S. 901).

In *Patagonia Corporation v. Board of Governors*, filed August 2, 1973, U.S.C.A. for the Ninth Circuit, petitioner requested the court to review and set aside a Board order (Federal Reserve *Bulletin*, 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 nonbanking activities, including Pima Savings and Loan Association, Tucson, Arizona. In an opinion filed May 19, 1975, the court vacated the Board order and remanded the matter to the Board for the purpose of holding a formal hearing under Section 2(d)(3) of the Bank Holding Company Act to determine whether petitioner, on June 30, 1968, had the power to exercise a controlling influence over the management and policies of Pima Savings and Loan (517 F. 2d 803). If petitioner did exercise a controlling interest, Pima would be, in effect, a subsidiary of Patagonia engaged in an indefinitely grandfathered activity. The Board ordered a hearing, which commenced September 30. A final decision of the Board has yet to be made in this matter.

In *Iowa Independent Bankers v. Board of Governors*, filed August 31, 1973, U.S.C.A. for the District of Columbia Circuit, petitioner requested the Court to review and set aside a Board order (*Federal Register*, vol. 38, page 21530) permitting Northwest 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 was unconstitutional. Northwest Bancorporation was given leave to intervene in the proceedings. The court denied the petition to set aside the Board order, holding, *inter alia*, that there was no conflict between Iowa law and the Bank Holding Company Act and that the Iowa law was unconstitutional (511 F. 2d 1288 (D.C. Cir. 1975); *cert. denied*, 96 S. Ct. 144 (1975)).

In *Independent Bankers Association of Georgia v. Board of Governors*, filed September 28, 1973, U.S.C.A. for the District of Columbia Circuit, petitioner requested the court to review and set aside a Board order, dated August 31, 1973, permitting Citizens and Southern Holding Company ("C&S"), Atlanta, Georgia, to engage *de novo* in mortgage banking activities. In an opinion handed down on July 31, 1975, the court declined to pass on the merits of the C&S appli-

cation. Rather, the court found that substantial questions of fact had been raised concerning the "public benefits" of the application and held that in a contested Section 4(c)(8) application, where "adjudicative" facts are in dispute, an interested party who presents a material factual contest is entitled to an evidentiary hearing under the Administrative Procedure Act. Accordingly, the court remanded the case to the Board for a formal evidentiary hearing (516 F. 2d 1206).

In *American Bancorporation et al. v. Board of Governors* and in *Springsted, Inc., et al. v. Board of Governors*, both filed September 13, 1973, U.S.C.A. for the Eighth Circuit, petitioners asked the court to review and set aside the Board order (Federal Reserve *Bulletin*, September 1973, page 701) approving the acquisition by Northwest Bancorporation, Minneapolis, Minnesota, of T. G. Evensen & Associates, Inc., Minneapolis, Minnesota. In December 1974 the court held in part that petitioners had raised adjudicative issues before the Board and were entitled to a formal hearing (509 F. 2d 29). The court therefore vacated the Board's order and remanded the case to the Board, which has ordered a hearing. In a further clarifying order, the court allowed Northwest to maintain its control of T. G. Evensen & Associates, Inc., pending the outcome of the hearing.

In *East Lansing State Bank v. Board of Governors*, No. 73-2188, filed December 7, 1973, U.S.C.A. for the Sixth Circuit, petitioner asked the court to review and set aside a Board order (Federal Reserve *Bulletin*, 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 proceeding pending the outcome of a suit filed by the Justice Department challenging these acquisitions as violations of the antitrust laws.

Two consolidated actions in the U.S.C.A. for the District of Columbia Circuit, *Independent Bankers Association of America, Inc. v. Board of Governors*, filed December 17, 1973, and *National Courier Association et al. v. Board of Governors*, filed December 14, 1973, were decided in an opinion handed down on August 4, 1975. The petitioners had sought judicial review of a Board order (Federal Reserve *Bulletin*, December 1973, page 892) determining that certain courier service activities are so closely related to banking or manag-

ing or controlling banks as to be a proper incident thereto under Section 4(c)(8) of the Bank Holding Company Act. The Court of Appeals decisions sustained the Board's regulation allowing bank holding companies to offer financially related courier services. However, it set aside the Board's interpretation allowing incidental non-financially related courier services as beyond the scope of activities permissible under Section 4(c)(8) (516 F. 2d 1229). The court's opinion also upheld the Board's practice of deleting the nonfactual portions of staff memoranda included in administrative records. Internal Board staff memoranda must be included in the "record" presented to a reviewing court only to the extent they (i) contain purely factual material and (ii) are adopted by the agency as the basis of its decision.

In *Old Kent Financial Corporation v. Board of Governors*, filed February 2, 1974, U.S.C.A. for the District of Columbia Circuit, petitioner requested the court to review and set aside a Board order (Federal Reserve *Bulletin*, February 1974, page 133) denying petitioner's application to acquire National Lumberman's Bank and Trust Company, Muskegon, Michigan. In April 1975 the court remanded the matter to the Board for the limited purpose of allowing petitioner to file a motion for reconsideration before the Board. Upon reconsideration, the Board again denied the application (Federal Reserve *Bulletin*, April 1975, page 247), and petitioner did not seek judicial review of the second denial order.

In *Financial General Bankshares, Inc. v. Board of Governors*, No. 74-1344, filed March 14, 1974, U.S.C.A. for the District of Columbia Circuit, petitioner sought judicial review of a Board denial of petitioner's request for reconsideration of a condition imposed by the Board order (Federal Reserve *Bulletin*, September 1973, page 678) approving petitioner's application to acquire Second National Bank of Richmond, Richmond, Virginia. The challenged condition was the termination of control of petitioner by International Bank, Washington, D.C. On January 23, 1975, a two-judge panel in the Court of Appeals dismissed the petition as untimely filed.

In *National Automobile Dealers Association, Inc. v. Board of Governors*, No. 74-1431, filed April 17, 1974, U.S.C.A. for the District of Columbia Circuit, petitioner sought judicial review of a Board order (Federal Reserve *Bulletin*, April 1974, page 284)

amending the portion of the Board's Regulation Y concerning the scope of personal property leasing, an activity previously determined to be "so closely related to banking or managing or controlling banks as to be a proper incident thereto." In an order filed October 22, 1975, the court granted a motion by the Board to remand the case to the Board for initiation of a rule-making proceeding on the question of whether automobile leasing should continue to be a permissible leasing activity for bank holding companies. A public oral presentation on this issue is scheduled for March 23, 1976.

In *George Brice, Jr., et al. v. Board of Governors*, No. 74-1750, filed April 25, 1974, U.S.C.A. for the Ninth Circuit, petitioners requested the court to review and set aside a Board order (*Federal Reserve Bulletin*, May 1974, page 371) granting the application of Orbanco, Inc., Portland, Oregon, to acquire Security Bank of Oregon, Portland, Oregon. Orbanco was granted leave to intervene. On January 14, 1976, the court issued an opinion affirming the Board's order.

In *The First National Bank of St. Charles et al. v. Board of Governors*, filed April 30, 1974, U.S.C.A. for the Eighth Circuit, petitioners requested the court to review and set aside a Board order (*Federal Register*, vol. 39, page 14644) approving the request of Mark Twain Bancshares, Inc., Clayton, Missouri, to acquire Mark Twain O'Fallon Bank, O'Fallon, Missouri, a proposed new bank. In a decision filed January 22, 1975, the court held that the petitioners' failure to present to the Board the objections that they sought to raise before the court required dismissal of the action. In addition, the court held that petitioners were not entitled to a review as "aggrieved parties" under Section 9 of the Bank Holding Company Act (12 U.S.C. Section 1848) since "presentation of an objection to the Board is a condition precedent to standing as a 'party aggrieved' before [the] court" (509 F. 2d 1004). In a supplementary order filed February 11, 1975, the court denied petitioners' motion for rehearing and reaffirmed its earlier opinion.

On July 30, 1975, the U.S.D.C. for the District of Columbia dismissed a complaint filed on May 8, 1974, *Investment Company Institute v. Board of Governors*, on the Board's motion. The suit challenged the validity under the Glass-Steagall Act of the Board's January 1972 amendment to Regulation Y permitting bank holding companies to engage in the business of acting as investment adviser to an investment company registered under the Investment Company

Act of 1940. The court declined to reach the merits of the complaint, holding instead that Section 9 of the Bank Holding Company Act (12 U.S.C. Section 1848) prescribed the exclusive means for obtaining judicial review of regulations promulgated by the Board under that Act. Since the Investment Company Institute did not seek judicial review in the Court of Appeals within 30 days after entry of the order setting forth the regulation, the court held that plaintiff had failed to comply with Section 9 of the Act, and the case was dismissed for lack of jurisdiction (398 F. Supp. 725). The plaintiff has sought an appeal of the decision in the U.S.C.A. for the District of Columbia Circuit.

In *Bank of Commerce et al. v. Board of Governors*, filed June 3, 1974, U.S.C.A. for the Tenth Circuit, petitioners requested the court to review and set aside the Board order (*Federal Register*, vol. 39, page 16935) approving the application of Wyoming Bancorporation, Cheyenne, Wyoming, to acquire Bank of Wyoming, N.A., Sheridan, Wyoming, a proposed new bank. In a decision filed March 21, 1975, the court upheld the Board order, stating that petitioners should have raised their objections initially in the application proceeding before the Board and that petitioners had received adequate notice of the pending application proceeding from several sources, including publication in the *Federal Register* (513 F. 2d 167).

Three separate groups of suits challenge the permissibility of bank holding company entry into insurance agency activities under Section 4(c)(8) of the Bank Holding Company Act. In *Alabama Association of Insurance Agents et al. v. Board of Governors*, No. 74-2981, filed July 30, 1974, U.S.C.A. for the Fifth Circuit, petitioners requested the court to review and set aside the Board order (*Federal Reserve Bulletin*, August 1974, page 596) approving the application of The Alabama Financial Group, Inc. (now Southern Bancorporation), to engage in certain insurance agency activities. In *Georgia Association of Insurance Agents et al. v. Board of Governors*, No. 74-3544, filed October 4, 1974, U.S.C.A. for the Fifth Circuit, petitioning national and State associations of independent insurance agents sought judicial review of the Board order (*Federal Register*, vol. 39, page 33414) approving the application of First National Holding Company, Atlanta, Georgia, to engage in certain insurance agency activities. The Committee to Preserve Consumer Options, Southern Bancorporation, and First Holding Company have inter-

vened. Finally, in two related cases, *Florida Association of Insurance Agents, Inc. v. Board of Governors*, Nos. 75-3151 through 75-3153, filed August 13, 1975, U.S.C.A. for the Fifth Circuit, and *National Association of Insurance Agents, Inc. v. Board of Governors*, Nos. 75-3342, 75-3343, and 75-3358, filed August 14, 1975, U.S.C.A. for the District of Columbia Circuit, petitioners sought judicial review of three Board orders of July 14, 1975 (*Federal Register*, vol. 40, pages 30869, 30872, 30876), approving applications of three bank holding companies to engage in certain insurance agency activities in Florida to the extent permitted by State law. A motion to transfer the Florida cases in the District of Columbia Circuit for purposes of consolidation with the Florida cases in the Fifth Circuit has been granted.

In *West Virginia Bankers Association et al. v. Board of Governors*, No. 74-2003, filed August 28, 1974, U.S.C.A. for the Fourth Circuit, petitioners sought judicial review of a Board order permitting Intermountain Bankshares Company, Charleston, West Virginia, to become a bank holding company through acquisition of Kanawha Banking & Trust Company, N.A., Charleston, West Virginia, and Community Bank & Trust Company, N.A., Fairmont, West Virginia (*Federal Register*, August 1974, page 28566). The Board in its order interpreted a West Virginia statute as failing to prohibit formation of bank holding companies in the State. Subsequently, a new statute prohibiting the operation of bank holding companies in the State was enacted, and the court remanded this case to the Board on April 16, 1975, to obtain the Board's interpretation of the new statute. On June 4, 1975, the Board issued a new order denying the application in light of the statute (*Federal Register*, vol. 40, page 24959).

In *Tri-State Bancorporation, Inc. v. Board of Governors*, filed November 2, 1974, U.S.C.A. for the Seventh Circuit, petitioner sought judicial review of the Board's order (*Federal Reserve Bulletin*, November 1974, page 777) denying petitioner's application to become a bank holding company through acquisition of voting shares of Tri-State Bank of East Dubuque, East Dubuque, Illinois. On October 24, 1975, the court vacated and set aside the Board order, holding that the Board had failed to act upon the application within 91 days of submission to it of the "complete record," as required by Section 3(b) of the Bank Holding Company Act, and, therefore,

the application must be deemed approved as a matter of law (524 F. 2d 562). The court recognized that the Board can still act in good faith to request additional information from an applicant or interested party and that the 91-day period would begin to run only upon receipt of such additional submissions. The decision applies only to applications filed pursuant to Sections 3 and 4 of the Act and not to general rule-making proceedings under Section 4. The Board's petition for reconsideration of the decision *en banc* was denied on December 15, 1975.

In *Purolator Courier Corporation v. Board of Governors*, No. 74-2096, filed December 13, 1974, U.S.C.A. for the District of Columbia Circuit, petitioner sought judicial review of a Board letter, dated November 15, 1974, denying a request by petitioner that the Board find the expansion of courier activities by Courier Express Corporation, a subsidiary of First Union Corporation of North Carolina (formerly Cameron Financial Corporation), to be a violation of the Bank Holding Company Act in that First Union did not seek Board approval of such expansion. Subsequently, First Union was denied a license to expand its courier services intrastate in South Carolina by the appropriate State licensing agency, and First Union abandoned any plans for expansion of its courier subsidiary. The question of dismissal of this matter remains pending.

In *American Security and Trust Company et al. v. Board of Governors*, No. 74-2070, filed December 3, 1974, U.S.C.A. for the District of Columbia Circuit, petitioner sought judicial review of the Board order (Federal Reserve *Bulletin*, December 1974, page 875) directing petitioner to terminate its ownership and control of Fairfax County National Bank, Falls Church, Virginia, within 2 years. In a related case, *The Riggs National Bank v. Board of Governors*, No. 74-2089, filed December 12, 1974, U.S.C.A. for the District of Columbia Circuit, The Riggs National Bank also sought judicial review of the same Board order. The cases were dismissed by stipulation on June 11, 1975.

In *Louis J. Roussel v. Board of Governors et al.*, No. 75-104, filed April 5, 1975, U.S.D.C. for the Eastern District of Louisiana, plaintiff sought money damages and an injunction against a removal action instituted against plaintiff by the Board under the Financial Institutions Supervisory Act of 1966 (12 U.S.C. Section 1818 (e))

(2) and (4)). The court dismissed the request for injunctive relief for mootness following plaintiff's resignation from the board of directors of the National American Bank of New Orleans, Louisiana, and the entry of a Consent Order of Prohibition concerning his participation in the affairs of that institution.

In *Bank of Boulder v. Board of Governors et al.*, No. 75-1406, filed June 6, 1975, U.S.C.A. for the Tenth Circuit, petitioner requested the court to review and set aside a Board order of May 7, 1975 (*Federal Register*, vol. 40, page 21541), granting the application of Westland Banks, Inc., of Lakewood, Colorado, to acquire Gunbarrel National Bank of Boulder, Colorado, a proposed new bank.

In *Martin-Trigona v. Board of Governors et al.*, No. 75-C-3231, filed September 29, 1975, U.S.D.C. for the Northern District of Illinois, plaintiff challenged an application pending before the Board by the Mellon National Corporation to acquire a personal finance company. On February 11, 1976, the court issued a memorandum decision dismissing the action, finding that plaintiff had failed to exhaust his administrative remedies, and finding that the service of process and venue in the action were improper. The court also questioned the plaintiff's standing as either a potential competitor or a consumer. In a second suit captioned *Martin-Trigona v. Board of Governors et al.*, No. 75-C-3230, filed September 26, 1975, U.S.D.C. for the Northern District of Illinois, the same plaintiff challenged a pending application by Citicorp to acquire a personal finance company. The action was dismissed with prejudice for lack of prosecution on January 28, 1976.

In *Harlan National Company v. Board of Governors*, No. 75-1898, filed November 28, 1975, U.S.C.A. for the Eighth Circuit, petitioners asked the court to review and set aside the Board order of October 31, 1975 (*Federal Reserve Bulletin*, November 1975, page 817), denying the application of Harlan National Company, Harlan, Iowa, to become a bank holding company through acquisition of the Harlan National Bank, Harlan, Iowa.

In *National Computer Analysts, Inc. v. Decimus Corporation et al.*, No. 74-1684, filed November 24, 1975, U.S.D.C. for the District of New Jersey, the Board has been joined in an amended complaint challenging the 1974 *de novo* entry by Decimus Corporation, a sub-

subsidiary of BankAmerica Corporation, San Francisco, California, into data processing activities in the State of New Jersey.

In *Community Bancorporation v. Board of Governors*, No. 75-2509, filed December 23, 1975, U.S.C.A. for the Sixth Circuit, petitioner asked the court to review and set aside the Board order of November 28, 1975 (Federal Reserve *Bulletin*, December 1975, page 886), denying the application of Community Bancorporation, Columbus, Ohio, to acquire Community National Bank, Flushing, Ohio.

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, petitioners sought appeal of 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 both cases, the Courts of Appeals affirmed the district courts' decisions in the Board's favor (500 F. 2d 282 (9th Cir. 1974) and 516 F. 2d 1229 (D.C. Cir. 1974)). Petitioners in the Ninth Circuit sought review of that decision by the Supreme Court on a writ of certiorari, which was denied in January 1975 (419 U.S. 1089).

In *Donald K. Gearhart et al. v. Federal Reserve Bank of Cleveland et al.*, filed September 14, 1973, U.S.D.C. for the Southern District of Ohio, plaintiffs brought a class action on behalf of purchasers of bank certificates of deposit (CD's) in face amounts of less than \$100,000 and of savings account depositors at certain Cincinnati banks, 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 deposit. The district court dismissed the action for failure to state a claim upon which relief could be granted. Plaintiffs appealed the decision to the U.S. Court of Appeals for the Sixth Circuit, which summarily affirmed the district court decision in May 1975 (516 F. 2d 353).

In *Consumers Union of the United States, Inc., et al. v. Board of Governors*, No. 1766-73, filed September 14, 1973, U.S.D.C. for the District of Columbia, plaintiffs brought suit under the Freedom of Information Act to compel the Board of Governors to release certain data regarding interest rates on consumer loans furnished by individual banks to the Board for its composite G.10 statistical release. In June 1974 the district court handed down a decision for the plaintiff and ordered the Board to disclose all the information collected in the G.10 survey. The Board appealed to the U.S.C.A. for the District of Columbia Circuit, which remanded the case to the district court with instructions to oversee a settlement. A settlement was reached and a stipulation filed as to the release of future consumer loan data. In June 1975 a motion was filed by plaintiff seeking an award of attorneys' fees and other litigation costs under Section 552a(4)(E) of the Freedom of Information Act, and that matter is still pending.

In *Cook et al. v. Board of Governors*, No. 75-0286, filed March 3, 1975, U.S.D.C. for the District of Columbia, plaintiffs requested an injunction preventing the Board from giving effect to or in any way enforcing the rules amending the Board's Regulation D (12 CFR Section 204), which were published on November 19, 1974 (*Federal Register*, vol. 39, page 40580); November 22, 1974 (*Federal Register*, vol. 39, page 40938); and January 27, 1975 (*Federal Register*, vol. 40, page 3973). In addition, plaintiffs requested the court to enjoin the Board from prescribing any further rules altering or in any way affecting the reserve requirements of member banks unless such rules are first published for comment 30 days before promulgation. On October 10, 1975, the court filed an order dismissing the action for lack of standing on the part of plaintiffs.

In *Curvin J. Trone v. United States*, No. 135-75, filed April 24, 1975, U.S. Court of Claims, plaintiff—the trustee in bankruptcy for Westgate California Corporation—brought suit against the United States under the Fifth Amendment for the unlawful taking of property without due process of law. The complaint alleges that the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, and the Federal Reserve Bank of San Francisco failed, as the responsible Federal banking agencies, to provide adequate supervision of the United States National Bank of San Diego, thus allowing the controlling interest of the bank and Westgate California Corporation to act in a

manner detrimental to the corporation. Two other cases currently pending against the United States, *Robert Farms, Inc. v. Comptroller of the Currency et al.*, Civ. No. 7509268-T, filed November 20, 1975, U.S.D.C. for the Southern District of California, and a third party complaint in *Federal Deposit Insurance Corporation v. M. J. Coen et al.*, Civ. No. 75-0136-N, filed August 26, 1975, U.S.D.C. for the Southern District of California, also arise out of the same bank failure.

In *Richard S. Kaye v. Arthur F. Burns et al.*, No. 75-1873, filed April 18, 1975, U.S.D.C. for the Southern District of New York, plaintiff brought suit under the Freedom of Information Act to obtain access to certain Board records. Based on subsequent events, the requested information was transmitted to the plaintiff. A motion for attorneys' fees is pending.

In *David R. Merrill et al. v. Federal Open Market Committee of the Federal Reserve System*, No. 75-0736, filed May 8, 1975, U.S.D.C. for the District of Columbia, plaintiffs brought suit under the Freedom of Information Act to compel the Federal Open Market Committee to provide them with immediate access to the records of policy actions taken by the Committee at its meetings and to the Memoranda of Discussion of the Committee's meetings held on January 20-21 and February 19, 1975. On January 29, 1976, the judge ruled orally that the records of the Committee's policy actions must be promptly produced on the day of their adoption. The judge also ruled that those portions of the Memoranda of Discussion containing reasonably segregable facts are not exempt under the Freedom of Information Act. The Committee subsequently filed a motion to amend the judge's findings, and a response and motion for award of attorneys' fees and costs were filed by the plaintiff and answered by the Committee. On March 9, 1976, the court filed a written order in the action. The court affirmed its oral ruling regarding the Committee's policy actions. In addition, the court ordered the Committee to disclose to the plaintiff those portions of the Memoranda of Discussion containing reasonably segregable facts and, to the extent such facts are not disclosed, to submit the Memoranda of Discussion for *in camera* inspection. The Committee has filed a notice of appeal and has submitted portions of the Memoranda of Discussion to plaintiff and the remainder to the court *in camera*.

In two separate actions—*Henry M. Smith v. National State Bank*

of *Boulder et al.*, No. 375-0695-C, filed June 4, 1975, U.S.D.C. for the Northern District of Texas, and *Ellsworth v. Burns et al.*, No. CIV-625-PHX-WPC, filed September 1975, U.S.D.C. for the District of Arizona—plaintiffs present challenges under the Fifth Amendment to the constitutionality of Federal Reserve notes and commercial bank credit. The *Ellsworth* case was dismissed by court order on December 19, 1975.

In *Reserve Enterprises, Inc., et al. v. Arthur F. Burns et al.*, No. 4-75-476, filed September 1975, U.S.D.C. for the District of Minnesota, plaintiffs requested the court to rescind the Board's order of July 31, 1975, that plaintiffs cease and desist from certain violations and unsound practices and that they take action to correct the condition arising from such practices. After negotiations, the plaintiffs consented to the issuance of the order with certain minor modifications.

In *Logan et al. v. Secretary of State et al.*, No. 75-1519, filed September 18, 1975, U.S.D.C. for the District of Columbia, the Board and the Federal Reserve Bank of New York are parties to a class action brought on behalf of 2,625 citizens with certified claims against Czechoslovakia under Title IV of the International Claims Settlement Act of 1949. Plaintiffs claim an interest in gold and other assets belonging to the Communist Government of Czechoslovakia, allegedly in the possession of the Federal Reserve System. The court granted the defendants' motion to dismiss on February 2, 1976, on the grounds that the action constituted an unconsented suit against the United States and, further, presented only nonjusticiable political questions.

In two cases filed in the U.S.D.C. for the Northern District of Georgia—*Peter E. Blum v. Morgan Guaranty Trust Co., et al.*, No. C75-1916A, filed October 3, 1975, and *Peter E. Blum v. First National Holding Corporation*, No. C75-2251A, filed November 19, 1975, plaintiff brought suit challenging certain loan practices of the defendant banks and requesting that the court order Board Chairman Arthur Burns to take action to prevent these practices.

In *International Bank v. Board of Governors*, No. 75-2193, filed December 31, 1975, U.S.D.C. for the District of Columbia, plaintiff brought suit under the Freedom of Information Act to obtain access to certain Board records. As of mid-March, this suit was still pending.

Bank Supervision and Regulation by the Federal Reserve System

BANK HOLDING COMPANIES

During 1975, pursuant to the provisions of the Bank Holding Company Act of 1956, as amended, the numbers of proposals acted on by the Board, and under delegated authority by the Secretary's Office and the Federal Reserve Banks, were as follows:

Section	Direct action		Delegated authority		
	Board		Secretary's Office	Reserve Banks	
	Approved	Denied	Approved	Approved	Permitted
3(a)(1).....	50	15	24	67	.....
3(a)(3).....	71	17	14	52	.....
3(a)(5).....	8	.....	.....	.....	.....
4(c)(8).....	¹ 78(91)	¹ 5(12)	4	12	285
4(c)(12).....	.....	.....	.....	.....	25
4(d).....	1	1	.....	.....	.....

¹ Multiple applications in parentheses.

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 1974 were obtained from all registered bank holding companies pursuant to the provisions of Section 5(c) of the Act. At the end of 1975, there were 1,821 bank holding companies in operation.

In processing applications filed under the Act, the Board has continued to stress the financial soundness of bank holding companies and their subsidiaries and to emphasize the public benefits, increased convenience and needs, and improved financial services accruing to the public in the communities to be served. Some cases decided by the Board during the year have led to the introduction of new financial services into a market, while other holding company acquisitions have made possible an increased supply of credit in a particular area.

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 relatively small organizations. In other cases, holding companies have been permitted to acquire financially weak institutions, thus giving the acquired organizations the ability to become more viable competitors.

In 1975 many banking organizations experienced limited asset growth, and some showed deterioration in asset quality and earnings. During this period the Board carefully examined any proposal by such organizations that would apply available funds toward external expansion rather than toward augmenting the capital and liquidity positions of these organizations. In such circumstances, the employment of funds to enlarge an organization's capital and liquidity positions was preferred, and the utilization of funds for external expansion was not ordinarily favored.

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 author-

ities, while in others alternate independent examinations are made. All but 27 of the 1,046 State member banks were examined during 1975.

National banks, all of which are members of the Federal Reserve System, are subject to examination by direction of the Board of Governors or the Federal Reserve Banks. However, as a matter of practice they are not examined by either because the law charges the Comptroller of the Currency directly with that responsibility. The Comptroller provides reports of examination of national banks to the Board upon request, and each Federal Reserve Bank purchases from the Comptroller copies of reports of examination of national banks in its district.

The Board of Governors makes its reports of examination of State member banks available to the Federal Deposit Insurance Corporation, and the FDIC 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 1975, 23 such changes in ownership of the outstanding voting stock of State member banks were reported to the Reserve Banks as changes in control of these member banks. Arrangements continue among the three Federal supervisory agencies for appropriate exchanges of reports received by them pursuant to the Act. The Reserve Banks send copies of all reports they receive to the appropriate district office of the Federal Deposit Insurance Corporation, the Regional Administrator of National Banks (Comptroller of the Currency), and the State bank supervisor.

Upon receipt of reports involving changes in control of State member banks, the Reserve Banks are under instructions to forward such reports promptly to the Board, together with a statement (1) that the new owner and management are known and acceptable to the Reserve Bank or (2) that they are not known and that an investigation is being made. The findings of any investigation and the

Loans to executive officers

Period covered (condition report dates)	Total loans to executive officers		Range of interest rate charged (per cent)
	Number	Amount (dollars)	
Jan. 1, 1975— Apr. 16, 1975 . . .	7,882	26,063,539	1-24
Apr. 17, 1975— June 30, 1975 . . .	6,893	27,225,233	1-24
July 1, 1975— Sept. 30, 1975 . . .	5,983	20,882,196	1-24
Oct. 1, 1975— Dec. 31, 1975 . . .	(¹)	(¹)	(¹)

¹ Compilation of data for condition report of Dec. 31, 1975, has not been completed.

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. Data submitted by member banks during 1975, as required by law, appear on page 300.

FEDERAL RESERVE MEMBERSHIP

As of December 31, 1975, member banks accounted for 39 per cent of the number of all commercial banks in the United States and for 59 per cent of all commercial banking offices, and they held approximately 75 per cent of the total deposits in such banks; these figures compare with 40 per cent, 60 per cent, and 77 per cent, respectively, at the end of 1974. State member banks accounted for 11 per cent of the number of all State commercial banks and 23 per cent of the banking offices, and they held 42 per cent of total deposits in State commercial banks.

Of the 5,790 banks that were members of the Federal Reserve System at the end of 1975, there were 4,744 national banks and 1,046 State banks. During the year there were net increases of 34 national and net declines of 26 State member banks. The decline in State member banks was offset in part by the organization of 75 new national banks and by the conversion of 8 nonmember banks to national banks. The decrease in State member banks reflected mainly 32 withdrawals from membership and 10 conversions to branches incident to mergers and absorptions.

At the end of 1975 member banks were operating 20,682 branches, facilities, and additional offices, 736 more than at the close of 1974. During the year member banks established 937 *de novo* branches.

Detailed figures on changes in the banking structure during 1975 are shown in Table 19, pages 392 and 393.

BANK MERGERS

Under Section 18(c) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)), the prior written consent of the Board of Governors of the

Federal Reserve System must be obtained before a bank may merge, consolidate, or acquire the assets and assume the liabilities of another bank if the acquiring, assuming, or resulting bank is to be a State member bank.

In deciding whether to approve an application, the Board is required by Section 18(c) to consider the impact of the proposed transaction on competition, the financial and managerial resources and prospects of the existing and proposed institution, and the convenience and needs of the community to be served. The Board is precluded from approving "any proposed merger transaction which would result in a monopoly, or which would be in furtherance of any combination or conspiracy to monopolize or to attempt to monopolize the business of banking in any part of the United States." A proposed transaction "whose effect in any section of the country may be substantially to lessen competition, or to tend to create a monopoly, or which in any other manner would be in restraint of trade," may be approved only if the Board of Governors is able to find that the anticompetitive effects of the transaction would be clearly outweighed in the public interest by the probable effect of the transaction in meeting the convenience and needs of the community to be served.

Before acting on each application the Board must request reports from the Attorney General, Comptroller of the Currency, and Federal Deposit Insurance Corporation on the competitive factors involved in each transaction. The Board in turn responds to requests by the Comptroller or the FDIC 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 1975 the Board disapproved 1 and approved 9 of these applications, and it submitted 62 reports on competitive factors to the Comptroller of the Currency and 54 to the FDIC. In addition, the Federal Reserve Banks approved 6 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 15 applications approved by the Board or the Reserve Banks, together with other pertinent information, is shown in Table 21, pages 396-410.

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 1975 member banks had in active operation a total of 762 branches in 83 foreign countries and overseas areas of the United States; 97 national banks were operating 674 of these branches, and 29 State member banks were operating 88 such branches. The number and location of these foreign branches were as shown in the tabulation on the following page.

Under the provisions of the Federal Reserve Act (Section 25 as to national banks and Sections 9 and 25 as to State member banks), the Board of Governors during the year 1975 approved 38 applications made by member banks for permission to establish branches in foreign countries and overseas areas of the United States. During the year, 54 overseas branches were opened by member banks and 24 were closed.

FOREIGN BANKING AND FINANCING CORPORATIONS

At the end of 1975 there were four 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. All of these "agreement" corporations were examined during the year by examiners for the Board of Governors. The four corporations reflect a reduction of one from last year due to a merger into its parent in Philadelphia.

During 1975, under the provisions of Section 25(a) of the Federal Reserve Act, the Board issued a final permit to two corporations to engage in international or foreign banking or other international or foreign financial operations. Two corporations began operations. One corporation was dissolved and another was merged into some other corporation. At the end of the year there were 112 corporations in active operation under Section 25(a). Seven of these corporations operate a total of 13 overseas branches. Examiners for the Board of Governors examined 111 of these corporations during 1975.

American Samoa	1	Lebanon	3
Argentina	37	Liberia	2
Austria	1	Luxembourg	7
Bahamas	80	Malaysia	5
Bahrain	2	Mariana Islands	1
Barbados	6	Marshall Islands	1
Brunei	3	Mauritius	1
Belgium	10	Mexico	5
Bolivia	4	Monaco	1
Brazil	19	Netherlands	6
Canal Zone	2	Netherlands Antilles	4
Cayman Islands	49	Nicaragua	5
Chile	1	Okinawa	2
Colombia	37	Oman	1
Denmark	2	Pakistan	4
Dominican Republic	20	Panama	33
Ecuador	13	Paraguay	6
Egypt	2	Peru	3
El Salvador	1	Philippines	4
Fiji Islands	5	Puerto Rico	23
France	19	Qatar	1
Germany	30	Romania	1
Greece	18	Saudi Arabia	2
Guam	7	Singapore	22
Guatemala	3	Switzerland	9
Guyana	1	Taiwan	7
Haiti	5	Thailand	2
Honduras	3	Trinidad and Tobago	6
Hong Kong	25	Truk Islands	1
India	11	United Arab Emirates	10
Indonesia	6	United Kingdom	54
Ireland	4	Uruguay	5
Italy	10	Venezuela	4
Ivory Coast	1	Virgin Islands (U.S.)	27
Jamaica	8	Virgin Islands (British)	3
Japan	29	Yemen Arab Republic	1
Jordan	1	Other (West Indies)	9
Kenya	2		
Korea	3	Total	762

OTHER FOREIGN APPLICATIONS PROCESSED

During 1975, 201 other foreign applications were processed for action by the Board in accordance with Sections 25 and 25(a) of the Federal Reserve Act and of Sections 4(c)(9) and 4(c)(13) of the Bank Holding Company Act of 1956, as amended. Most of these involved proposed equity investments by Edge Act and agreement corporations, member banks, and bank holding companies.

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, 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 150 branch applications, 81 investments in bank premises, and denied 22 waivers of notice of intention to withdraw from membership in the Federal Reserve System. Under authority granted in (2) above, the Reserve Banks approved 1,427 applications (domestic and foreign).

The Board has delegated certain authorities to the Director or Acting Director of the Division of Banking Supervision and Regulation. Under this authority 194 actions were taken (domestic and foreign). In addition, the Director or Acting Director of the Division of Banking Supervision and Regulation is authorized under Section 18(c)(4) of the Federal Deposit Insurance Act (12 U.S.C. 1828(c)(4)) to furnish to the Comptroller of the Currency and the Federal Deposit Insurance Corporation reports on competitive factors involved in a bank merger required to be approved by one of those agencies if each of the appropriate departments or divisions of the appropriate Federal Reserve Bank and the Board of Governors are of the view that the proposed merger either would have no adverse competitive effects or would have only slightly adverse competitive effects, and if no member of the Board has indicated an objection prior to the forwarding of the report to the appropriate agency. Under this authority 105 competitive factor reports were approved.

BANK EXAMINATION SCHOOLS

In 1975 the Board's Bank Examination School conducted two sessions of the School for Examiners, three sessions of the School for Assistant Examiners, one session of the School for Trust Examiners, and one senior trust seminar. 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, 5,386 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, West Virginia, and Wyoming; the Treasury Department of the Commonwealth of Puerto Rico; the Division of Banking and Insurance, the Virgin Islands; and 25 foreign countries.

Consumer Affairs

INTRODUCTION AND SUMMARY

. . . in reality this Federal Reserve board will be a supreme court of American finance, safeguarding the commercial interests of this Nation, protecting our gold reserve, protecting our banking system, protecting our commercial system, protecting the individual credit of the private citizen, and giving him a fair deal in the struggles of commercial and business life, and seeing to it that every citizen shall receive the just amount of credit to which he is entitled by character and by resources.

Robert Latham Owen, Chairman of the Senate Committee on Banking and Currency; Senate debate on the Federal Reserve Act, November 24, 1913

The Regulation attempts to reconcile the statutory goal of equal access to credit—without regard to sex or marital status—with the need to preserve the creditor's ability to distinguish, in the creditor's own judgment, between applicants that are, or are not, creditworthy.

We have issued this Regulation pursuant to the direction of the Congress. . . . Our aim is to facilitate broader and fairer access to credit on a basis of creditworthiness alone.

Board press release October 16, 1975, with respect to adoption of Regulation B, implementing the Equal Credit Opportunity Act

It is unlikely that Senator Owen in 1913 could have foreseen the cascade of consumer credit protection legislation that the Congress has enacted beginning with the Truth in Lending Act of 1968. Nor is it likely he could have foreseen that half a century after the Federal Reserve System started to function the Congress would come to depend upon the Board as a source of reliable regulations to implement such legislation and, consequently, would make the Federal Reserve responsible for writing the rules under which most of the laws for consumer credit protection would operate.

The Board of Governors of the Federal Reserve System has become deeply involved in consumer credit protection through its regulations

that implement legislation in this field. Beginning with the Consumer Credit Protection Act of 1968 (of which the Truth in Lending Act is a part), these laws for the most part have set broad goals. But they have left to regulatory interpretation the provision of "do-and-don't" guides for attainment of these goals. The goals may be simply stated as follows: the consumer should be told clearly the terms of any credit transactions, through disclosure by lenders (Truth in Lending, 1968); mortgage lending should be free of discriminatory bias (Civil Rights Act, 1968, and Home Mortgage Disclosure Act, 1975); the consumer should not be held liable for large bills that result from unauthorized use of a credit card (credit card amendments to Truth in Lending, 1970); the individual seeking credit should be protected against out-of-date or unfair files that might damage his or her credit standing (Fair Credit Reporting Act, 1970); the consumer should have a fair method available to get billing errors corrected (Fair Credit Billing Act, 1974); the consumer seeking credit should not be discriminated against on grounds of sex or marital status (Equal Credit Opportunity Act, 1974); the consumer should get bills that identify the credit transactions that have been made (identification of transaction amendment to Truth in Lending, 1974); and the consumer should not be subjected to unfair or deceptive practices in trade or financial transactions (Federal Trade Commission Improvement Act, 1975).

These laws have led to highly detailed regulations, largely because of the multitude of consumer credit terms and conditions that are in existence. Both consumer representatives and creditors have sought a high degree of specificity in consumer credit protection regulations: consumers to be assured of definitions and rules to protect their gains and creditors because the potential money penalties for failure to comply are severe, especially under Truth in Lending and Equal Credit Opportunity. The tendency of creditors to seek the protection of detailed regulatory interpretation of these laws has been heightened by some legal actions seeking large awards on grounds of narrow technical violations.

At the beginning of 1975, the Board was faced with a massive regulatory workload in the consumer affairs field. This derived chiefly from the passage, on October 28, 1974, of a bill amending the Consumer Credit Protection Act of 1968. The main products of these amendments were the Fair Credit Billing Act and the Equal Credit

Opportunity Act. There were also miscellaneous amendments to the Truth in Lending Act, including requirements for identifying transactions in billing open-end credit accounts and for the disclosure of closing costs in mortgage settlements. All these amendments were to become effective a year after their passage, on October 28, 1975, and the Congress designated the Federal Reserve Board to write implementing regulations.

Also early in the year the Federal Trade Commission (FTC) Improvement Act of 1975 was passed. This legislation empowered the FTC to specify and forbid practices in trade or commerce that it considers unfair and deceptive, and it called for “substantially similar” Federal Reserve regulations regarding banking practices, to be adopted within 60 days of the effective date of the FTC regulation—unless the Board found that the practices cited by the FTC were not unfair and deceptive in banking, or that they would materially interfere with monetary policy or the payments mechanism.

The Home Mortgage Disclosure Act of 1975, approved December 31, 1975, required depository institutions with offices in standard metropolitan statistical areas to identify the geographic distribution of their home mortgage loans (including home improvement loans). The Board was directed to issue implementing regulations within 180 days.

The Board was also responsible, under the Real Estate Settlement Procedures Act of 1974, for amending its Regulation Z (Truth in Lending) to provide standardized forms for the advance disclosure—to persons buying homes through transactions involving Federally related mortgage loans—of information on credit terms required under Truth in Lending. In addition, the Congress had under consideration proposed legislation on consumer leasing, on which the Board gave testimony but which was not enacted into law in 1975. This legislation became law on March 23, 1976.

As 1975 began, the Board was considering amendments to other regulations, particularly Regulation Q. These amendments were acted upon during the year and served to improve banking services for millions of consumers.

The drafting and adoption of regulations to implement new consumer credit protection legislation in 1975 were accomplished within the time limits set by the Congress. The Board also completed a sub-

stantial amount of revision of its regulations in the consumer credit field. This was accomplished in part because the Board in 1974 had foreseen the likelihood of an increased workload in this area and had reorganized its staff to deal with it and in part because the Board already had had substantial experience in consumer credit protection regulation.

On July 12, 1974, the Board, citing "anticipation of the Board's possible responsibilities for implementation of certain pending consumer affairs legislation," established a new staff department specifically to work in the field of consumer protection—the Office of Saver and Consumer Affairs (OSCA). In addition to advance preparation for implementation of the pending consumer credit protection legislation that would designate the Federal Reserve as the rule-writing agency, OSCA took over two longstanding consumer protection responsibilities of the Board's Division of Supervision and Regulation: Securities Credit (margin requirements) and Truth in Lending. By the time the new legislation was adopted in 1974, OSCA was in position to start immediately to develop implementing regulations.

Among the Board's most pervasive responsibilities for consumer protection are its responsibilities for the supervision and regulation of member banks and bank holding companies. Since the Federal Reserve started operations in 1914, it has been involved through examination and supervision of State member banks in a fundamental consumer protection activity: maintenance of the soundness of the banking system to which the public entrusts its money.

The Board has supervised the expansion of the bank holding company movement since 1956, a role that was intensified under new legislation enacted in late 1970. A substantial part of the Board's time during the past 5 years has been spent in developing rules defining the fields of activity that bank holding companies may enter under the 1970 amendments and in ruling upon applications to expand bank holding companies. This activity is an extension of the bank supervisory role of the Board and has basically the same objective: to maintain a sound banking system. However, the Board's decisions as to what activities are permissible for bank holding companies and its rulings on applications to engage in new activities touch the consumer directly because a cardinal test in these decisions has been an affirmative showing of public benefit.

In 1975 the Board's responsibilities in the field of consumer credit protection resulted in two new regulations and numerous other policy actions. These regulations and actions were designed to assist the consumer, pursuant to law, in obtaining or using credit, to maintain the soundness of the banking system, and to increase the availability of financial information to the public.

The regulations were (1) a new part of Regulation Z (Truth in Lending), effective October 28, 1975, to implement the Fair Credit Billing Act, and (2) Regulation B, also effective October 28, to implement the Equal Credit Opportunity Act.

Fair Credit Billing

The chief purpose of the Fair Credit Billing Act (FCBA) and of its implementing regulation is to help consumers resolve credit billing disputes promptly and fairly. Certain practices deemed unfair to consumers using credit cards or other open-end credit accounts and those deemed anticompetitive between credit-card issuers and retail merchants are prohibited, and procedures are established for resolving disputes. The agencies that enforce Truth in Lending were also designated to enforce Fair Credit Billing.¹ The Act directed the Federal Reserve Board to write the implementing regulation to be used by all enforcement agencies. The Board published its rules following extensive consultation with consumer groups, creditors, and the public at large. These consultations included a meeting with the Truth in Lending Advisory Committee on April 22, 1975, the publication on April 30 of proposed regulations, publication of revised draft rules on July 30, and a hearing on August 5.

The principal provisions of the Fair Credit Billing amendments to Regulation Z include the following:

1. **Definition of billing error**

Amounts charged due to unauthorized use of the customer's credit card; amounts questioned by the customer; amounts charged

¹ Federal Reserve Board; Federal Deposit Insurance Corporation; Comptroller of the Currency; Federal Home Loan Bank Board; National Credit Union Administration; Civil Aeronautics Board; Federal Trade Commission; Farm Credit Administration; and Packers and Stockyards Administration.

for property or services not accepted by the customer, or wrongly delivered; failure to credit payments already made; accounting errors, including errors in computing finance charges; imposition of finance or other charges for late payment when a customer is not billed at his current address, if notification of change of address was given at least 10 days before the end of the billing period.

2. Definition of proper written notification of error

Written notice to the creditor, at an address the creditor specifies, within 60 days of the billing, that enables the creditor to identify the customer, indicates the customer's belief that the billing contains an error and the amount involved, and gives reasons for believing it is an error.

3. Billing error resolution

Upon receipt of proper written notification, the creditor must acknowledge the inquiry within 30 days and resolve the dispute within two billing cycles, or no more than 90 days. During the resolution process, the customer need not pay any amount in dispute. The creditor may not force collection of any disputed amount or any finance charges on it, or take other adverse actions arising from the amount disputed. Failure to comply subjects the creditor to a forfeiture of the disputed amount, up to \$50, regardless of whether an error has been made.

4. Rights of the cardholder to assert claims

The credit cardholder may withhold payment and assert legal claims against the card issuer with respect to shoddy or defective merchandise or services purchased with a credit card (with certain exceptions and limitations) following an unsuccessful attempt to resolve the problem with the merchant.

5. Discounts for payments in cash

Merchants may offer their customers a discount of up to 5 per cent for using cash in lieu of using a credit card. This does not constitute a finance charge. At the time it published its Fair Credit Billing rules the Board asked the Congress for clarification as to whether the provisions of the Act regarding discounts for the use of cash apply also to so-called surcharges when credit cards are used. (In early 1976 the Congress ruled that the Act's provisions applied only to discounts.)

6. Notification of rights

Creditors are required to notify customers of their rights under the FCBA by use of a notice set forth in the regulation.

7. Crediting of payments

The creditor must specify at least one location where payments will be credited as of the date of receipt.

8. Transition periods

Transition periods were provided in the regulation aimed at avoiding errors and confusion in billing due to difficulties in changing over from previously used forms and in making technical changes, such as computer programming and new computations required for compliance.

Equal Credit Opportunity

The Equal Credit Opportunity Act (ECOA) also directed the Federal Reserve to write an implementing regulation. Enforcement of the Act and the regulation is the responsibility of the Federal Trade Commission except as specifically assigned to other Federal agencies: the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and several others.²

The Act covers all who regularly extend credit—including banks, finance companies, department stores, and credit-card issuers—and those who arrange for the extension of credit.

The Board issued for public comment proposed provisions for a new regulation—Regulation B—to implement ECOA on April 23 and on September 8, 1975, and held a public hearing on May 28-29. Regulation B was issued on October 16 to become effective on October 28, 1975.

The principal ways in which the regulation affects the practices of creditors include:

1. Credit scoring on the basis of sex or marital status

The regulation forbids the use of sex or marital status in credit scoring systems.

² Federal Home Loan Bank Board acting directly or through the Federal Savings and Loan Insurance Corporation; Administrator of the National Credit Union Administration; Interstate Commerce Commission; Civil Aeronautics Board; Secretary of Agriculture; Farm Credit Administration; Securities and Exchange Commission; and Small Business Administration.

2. Reasons for denying credit

Upon the request of an applicant, creditors will be required to provide the reasons for terminating or denying credit.

3. Childbearing

Creditors may not inquire into birth control practices or into childbearing capabilities or intentions, or assume from her age that an applicant or an applicant's spouse may drop out of the labor force due to childbearing and thus have an interruption of income.

4. Income

A creditor may not discount part-time income but may examine the probable continuity of the applicant's job.

A creditor may ask and consider whether and to what extent an applicant's income is affected by obligations to make alimony, child support, or maintenance payments.

A creditor may ask to what extent an applicant is relying on alimony or child support or maintenance payments to repay the debt being incurred. But the applicant must first be informed that no such disclosure is necessary if the applicant does not rely on such income to obtain the credit. When an applicant chooses to rely on alimony, a creditor shall consider such payments as income to the extent that they are likely to be consistently made.

5. Recordkeeping

Effective November 30, 1975, creditors were required to keep applications and related materials, including any written charges submitted by the applicant alleging discrimination, for 15 months following the date the creditor gives the applicant notice of action.

For all accounts established on or after November 1, 1976, the creditor must identify, for consumer reporting agencies or others to whom the creditor furnishes information, those accounts that both spouses may use or for which they are both liable, so that the credit history can be utilized in the name of each spouse.

No later than February 1, 1977, the creditor is required to inform holders of existing accounts of a similar right to have the credit history reported in both names.

The Act provides that an aggrieved applicant may file suit against creditors for actual damages and for punitive damages up to \$10,000.

In class actions, penalties up to \$100,000 or 1 per cent of the creditor's net worth, whichever is less, may be assessed.

In several instances, when changes had to be made on a large scale in recordkeeping or computer programs, in training of employees, or in forms and information supplied to customers in order to conform to the regulation, the Board gave creditors various periods of time in which to comply. However, the Act's provisions against discrimination on the basis of sex or marital status are in force during the transition period.

The regulation exempts from numerous specific procedural provisions credit issued as an incident to doing business, such as credit given by dentists, doctors, or small shopkeepers whose credit is not obtained by use of a credit card, where no finance or late charge is made and where there is no agreement making the credit payable in more than four instalments.

There are also partial exceptions from procedural provisions for business credit, securities credit, and public utilities credit. These partial exceptions do not exempt such creditors from the basic prohibitions of the Act.

Effective June 30, 1976, the regulation requires that—except when applications for credit are made by telephone or are made orally for an amount not exceeding an existing limit on an open-end account—creditors must give applicants the following written notice:

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of sex or marital status. The Federal agency which administers compliance with this law concerning this (insert appropriate description—bank, store, etc.) is (name and address of the appropriate agency).

By February 1, 1977, creditors are required to mail to all customers, or to all married customers, a notice set forth in the regulation (Section 202.6) notifying them of their rights under the Act to have credit reports of accounts of married persons made in both names. Both spouses are entitled to the credit history of the account when both are contractually liable for the account or are allowed to use it. The information must be retrievable in the name of either spouse.

Applicants who request a statement of reasons for denial or termination of credit may be given a statement orally or in writing. The regulation provides an example of a possible form of response listing reasons, under six main headings, which may be checked to indicate why credit was denied:

- | | |
|-------------------------------------|---------------------------------|
| 1. Credit application: | – temporary <i>or</i> irregular |
| – not completed | – unable to verify |
| – lack of credit references | – length of employment |
| – credit reference too new to check | 4. Income: |
| | – insufficient |
| 2. Information furnished by: | – unable to confirm |
| XYZ credit bureau | – information refused |
| 10 Main Street | 5. Residence: |
| Anytown, Anystate 00000 | – too short a period |
| Phone Number: 000-000-0000 | – temporary |
| 3. Employment: | 6. Other (specify): |
| – unemployed | |

Truth in Lending amendments

On May 12, 1975, the Board announced adoption of a new Truth in Lending disclosure form pursuant to provisions of the Real Estate Settlement Procedures Act of 1974 (RESPA). The new form was drawn up as part of a combined settlement-and-credit-cost form developed by the Department of Housing and Urban Development under RESPA. The Act required that consumers be given a Uniform Disclosure/Settlement Statement at the time of lender commitment and again at the time of settlement in home purchase credit transactions.

On October 24, 1975, the Board amended Regulation Z, effective January 31, 1976, to conform to an amendment of the Truth in Lending Act (Section 409, Public Law 93-495) requiring disclosure of closing costs in certain real property transactions not covered by RESPA. This applied to credit transactions in which the lender retains or acquires an interest in the property involved, as collateral, except for mortgages covered by RESPA.

Both RESPA and Section 409 of Public Law 93-495 were under reconsideration in the Congress at the end of 1975. In testimony to the Congress on October 28, 1975, the Board recommended revision

of RESPA and repeal of Section 409 of the Truth in Lending Act requiring disclosure of closing costs in non-RESPA transactions. The Congress signed into law on January 2, 1976, the repeal of Section 409 of Public Law 93-495. In response to this legislative change, the Board rescinded its implementing regulations on January 21, 1976.

On September 10, 1975, in connection with adoption of regulations under the Fair Credit Billing Act, the Board amended Regulation Z to implement a legislative addition to the Truth in Lending Act (Section 411, Public Law 93-495). The regulatory amendment sets out requirements with respect to descriptions of credit transactions at the time the customer is billed. The objective is to supply sufficient information on the customer's bill to enable the customer to recognize the transaction.

A transition period was provided to avoid confusion and error during large-scale reprogramming of computers required to comply with the new law, but full compliance was required no later than October 28, 1977.

The main elements of full compliance with provisions of the Act for identification of transactions are:

Creditors who bill "descriptively"—that is, who send only a statement of account, without copies of the sales voucher made at the time of the transaction—must provide a transaction date. In addition, for two-party creditors—for instance, a transaction with a department store where the department store's credit card is used—there must be a description of the goods or services purchased. For three-party transactions—where a bank card or travel and entertainment credit card is used—the name of the merchant and the address where the transaction took place must be given.

On September 10, 1975, the Board amended Regulation Z to require that creditors disclose in a clear and conspicuous manner the credit terms that apply to the use of cash-advance checks at the time such checks are first sent to a customer. These cash-advance checks are blank checks issued to holders of credit-card accounts for use in obtaining cash advances. Their terms may vary from those pertaining to credit-card purchases. The Board noted that issuance and use of such checks in connection with credit-card accounts have been growing.

A number of other amendments or interpretations of Regulation Z during 1975 are described in the Annual Report on Truth in Lending

that begins on page 335. These involve disclosure of single-component finance charges and a series of amendments adopted to conform to changes in the law enacted by the Congress to improve administration of the Act.

Consumer Advisory Council

The Board has been assisted in its administration of the Truth in Lending Act by a Truth in Lending Advisory Committee, representing a cross section of persons concerned with consumer credit affairs, both debtors and creditors.

The Board recommended to the Congress that this Advisory Committee be reorganized into a Consumer Advisory Council, which could advise the Board on the entire range of its consumer credit responsibilities. It suggested that the Council be made up of 20 to 25 persons, some from the present membership of the Truth in Lending Advisory Committee, to meet once or more annually. Such a Consumer Advisory Council was enacted into law early in 1976.

Interest on Deposits amendments

During 1975 the Board adopted seven amendments to Regulation Q, through which it administers provisions of the banking laws establishing limitations on the rates of interest that banks may pay on deposits. Regulation Q applies to all national and State member banks. The amendments benefited consumers by increasing the convenience of banking, by increasing yields from savings accounts, or by improving services to savers.

Effective April 7 the Board authorized member banks to permit *the use of the telephone by their customers to withdraw funds from their savings accounts or to transfer funds from a savings account*. The action rescinded a policy, in effect since 1936, against the use of telephonic instructions of this type.

Effective June 5 the Board amended Regulation Q to permit member banks to *redeem time deposits before maturity without imposing a penalty for early withdrawal when the depositor or co-depositor has died*. Normally, Regulation Q permits early withdrawal from a time deposit only with a substantial penalty in the form of lost interest: interest on the withdrawn funds would be paid at the rate of passbook

savings (usually the lowest rate paid on savings or time deposits), and 3 months' interest would be forfeited.

Effective September 1 the Board amended Regulation Q to require member banks, upon issuing a time deposit, to make certain *disclosures* on the certificate, passbook, or other document representing the deposit. The amendment requires member banks to print or stamp on each certificate, passbook, or other document representing a time deposit a conspicuous statement indicating that no interest will be paid on the deposit after the maturity date. In the case of a time deposit that is automatically renewable, the amendment requires a conspicuous statement indicating the contract will be automatically renewed unless the owner gives the bank other instructions, and indicating the terms of the renewal.

Effective September 2 the Board amended Regulation Q to authorize member banks to offer a *bill-paying service* to their customers through the preauthorized transfer of funds from the customer's savings account. Previously, a bill-paying service of this type could be established only for the payment of the principal, interest, or other charges related to a real estate loan or mortgage. Under this amendment a savings depositor may authorize the transfer of funds to third parties for payments of any type, except bank overdrafts.

The amendment gave member banks broad, general authority to design and offer bill-paying services by using funds in savings accounts. The amendment did not, however, specify the form of such services. The Board therefore offered the following hypothetical outline of a possible bill-paying service:

In most cases, a bill-paying service will be based upon a written contract between the bank and the depositor. . . . The transfer . . . may be accomplished by means of an internal bank transaction or by sending a bank check to the transferee or the transferee's bank.

The depositor will give the bank the names of those organizations or individuals to whom funds are to be transferred, indicating either the specific amount to be paid to each, or a maximum amount and the frequency of payment.

Subsequent additions to the list of transferees or changes in instructions may be communicated to the bank in person, in writing, or by telephone.

If the depositor uses a written withdrawal form to convey transfer instructions to the bank, such form must contain language in bold-face type that it is not negotiable or transferable.

The System is monitoring the development of bill-paying services to determine if additional regulations or guidelines should be issued.

Effective November 10 the Board took a further action that was expected to be of particular benefit to small businessmen. This action amended the definition of savings depositors under Regulations Q and D. It permitted member banks, for the first time, to *offer savings accounts to partnerships, corporations, and other organizations operated for profit.*

Small businesses normally do not have facilities for investing temporarily idle cash balances in money market instruments, as large businesses customarily do. Thus, the bank balances of small businesses may lie idle because no interest is paid on demand balances. Permitting member banks to offer savings accounts to businesses, therefore, opened the way for small businesses, as well as large ones, to earn interest on cash that is being held for tax payments, inventory purchases, or the like.

The amendments place a ceiling of \$150,000 on business savings deposits. The dollar ceiling was intended to make such accounts attractive chiefly to small businesses. As savings accounts for businesses had previously been available at thrift institutions, the Board's action enabled member banks to compete more effectively with savings institutions.

The Board asked member banks to classify their business savings accounts as a separate item for reporting purposes.

In Massachusetts and New Hampshire, where the law permits financial institutions to offer deposits subject to negotiable orders of withdrawal (NOW's—check-like use of interest-bearing deposits), such accounts continued to be available only to individuals and other qualifying organizations. Businesses are not eligible to establish NOW accounts. (In early 1976, the Congress authorized financial institutions throughout New England to offer NOW accounts.)

Effective December 4 the Board adopted two amendments to Regulation Q to facilitate the establishment of *Individual Retirement Accounts (IRA's)*. IRA's are established pursuant to the Employee Retirement Income Security Act of 1974 by persons not covered by a retirement plan. The statute allows individuals to deposit up to \$1,500 or 15 per cent of their gross income (whichever is less) in special tax-deferred accounts.

The first of these amendments permits member banks to pay all

or a portion of an IRA time deposit prior to maturity, without penalty for early withdrawal, when the individual for whose benefit the account is maintained either reaches 59½ years of age or becomes disabled. (Regulation Q normally requires a penalty when time deposits are withdrawn prior to maturity.) As a result of this amendment, member banks may distribute the proceeds of an IRA account in a single payment, without penalty, when the distribution is made in conformance with an IRA agreement between the bank and the depositor. Or member banks may establish IRA's from which periodic, annuity-like payments may be made, with no reduction in the rate of interest paid.

The second amendment permits member banks to waive, for the purposes of IRA's, the \$1,000 minimum required for time deposits with maturities of 4 to 6 years. It permits member banks to pay 7¼ per cent interest for 4-year time deposits or the 7½ per cent rate for 6-year deposits, without requiring the usual minimum \$1,000 deposit, in recognition of the fact that some depositors initially may not have such a sum.

In announcing these amendments, the Board said it was continuing to study the question—on which it had earlier invited public comment—whether elimination of the ¼ per cent differential in interest rate ceilings prevailing for time deposits between commercial banks and thrift institutions is appropriate for long-term IRA's.

Unfair practices

On April 24, 1975, the Board published for comment a regulation proposed by the Federal Trade Commission that would prohibit the use of certain practices the Commission deemed to be unfair.

The Board's proposal would apply to banks. It parallels a proposed unfair credit practices rule applying to nonbank creditors published for comment by the FTC under the Federal Trade Commission Improvement Act of 1975. The Act requires the Board, within 60 days of the adoption by the FTC of final rules with respect to unfair credit practices, to adopt substantially similar rules applying to banks, unless the Board finds either that the practices in question are not unfair or deceptive for banks or that implementation of the rules would seriously conflict with essential monetary or payments system policies.

To enable it to comply with the 60-day requirement, the Board

published tentative proposals that, like the Commission's, would prohibit the use of specified collection practices or the incorporation in credit contracts of provisions considered by the Commission to be unfair. It would also require disclosures to co-signers to inform them of the legal ramifications of agreements they sign. Neither the FTC nor the Board had made a final ruling in this matter by the end of 1975.

Consumer complaint procedure

During 1975 the Board formalized its procedure for processing consumer complaints within the Office of Saver and Consumer Affairs and through consumer affairs personnel at the Federal Reserve Banks. The revised procedure deals not only with alleged violations of specific regulations but also with any other complaint by or for an individual consumer (including any borrower, saver, or investor) or consumer group, a business firm, or other person against a financial institution or other creditor. Any such complaint received by the Federal Reserve Board or any Federal Reserve Bank against State member banks of the Federal Reserve System is investigated and processed through the Federal Reserve Bank of the district. Complaints against other creditors are referred to the agencies having supervisory or enforcement responsibility for such creditors.

A detailed statistical collection procedure was simultaneously established to assist the Board in meeting its responsibilities under Title II of the Federal Trade Commission Improvement Act and, in addition, to permit periodic accounting of consumer complaint activity. A primary focus of this data collection effort is to assure that the Board is made aware promptly of any administrative, management, or enforcement deficiencies and of consumer concerns that would be helpful in developing more effective compliance procedures or remedies for consumer problems. The revised reporting procedures went into effect January 1, 1976.

New legislation

The Congress adopted two new consumer protection measures in acts signed into law on March 23, 1976. One adds a consumer leasing

section to the Truth in Lending Act. In its ANNUAL REPORTS to Congress for 1973 and 1974, the Board had pointed out several disclosure problems in the consumer leasing area and had suggested that the Congress might wish to examine them. The Board noted that there was no requirement for standardized cost disclosure when a consumer leased goods under a long-term contract. The other major legislation adopted amended the Equal Credit Opportunity Act to prohibit discrimination in the granting of credit on the basis of race, color, religion, national origin, age, receipt of income from public assistance programs, or exercise of rights under the Consumer Credit Protection Act.

The Board of Governors is responsible for writing implementing regulations for both new laws.

Additional information on bank financial condition

The Federal Reserve Board, together with the other Federal bank regulatory agencies, announced on December 17, 1975, a series of changes in two basic financial reports—report of income and report of condition—required of banks subject to its supervision. The revisions call for changes in the data supplied and more frequent reporting.

One objective of these revisions, effective March 31, 1976, and of additional revisions and supplements under preparation and to be announced later, is to provide the public with improved information as to the financial situation of banks. All parts of the reports will be available to the public upon request.

Consumer education

Recognizing the need for educational materials to help inform consumers of their rights and responsibilities under various new consumer protection laws, the Board in 1975 intensified production of consumer information pamphlets. Three such pamphlets were prepared in draft form and were undergoing staff review at year-end. They included informational pamphlets explaining in layman's terms the Board's regulations implementing the Equal Credit Opportunity and Fair Credit Billing Acts and an educational pamphlet describing the various ways in which interest on savings accounts is calculated and

paid. The last pamphlet is intended primarily to assist the consumer in intelligently evaluating alternative savings programs. Additional pamphlets are planned for publication in 1976.

EQUAL CREDIT OPPORTUNITY

Issuance of new Regulation B

During 1975 the Board of Governors of the Federal Reserve System published a new Regulation B implementing the Equal Credit Opportunity Act (ECOA), which forbids discrimination by creditors on the basis of sex or marital status. This regulation was written in response to legislation enacted by the Congress and signed by the President on October 28, 1974, with an effective date of October 28, 1975. Section 502 of the Equal Credit Opportunity Act sets forth the findings and purpose which led the Congress to adopt the ECOA as an addition to the Consumer Credit Protection Act:

The Congress finds that there is a need to insure that the various financial institutions and other firms engaged in extensions of credit exercise their responsibility to make credit available with fairness, impartiality and without discrimination on the basis of sex or marital status.

The Board issued its first proposed version of Regulation B for public comment on April 23, 1975. Public hearings were held at the Board of Governors in Washington, D.C., on May 28 and 29, 1975, at which 28 individuals and consumer groups, banking, retail, and financial organizations testified as to improvements that could be made in the regulation, as well as the effects the regulation would have on the consumer, on credit standards, and on the availability of credit generally.

Written comments on the proposed regulation as initially published were received by mail until June 30, 1975, from over 700 banks, consumers, consumer groups, financial institutions, retailers, trade associations, loan companies, and credit bureaus, as well as Federal and State regulatory agencies. Commentator suggestions included adding prohibitions on the basis of race, color, religion, and national origin, reorganization of the regulation along functional lines, and instituting educational requirements as to its provisions. Criticism

included allegations that there would be detrimental effects on consumers due to the possibility of increased costs of credit, the raising of credit standards, and the ensuing restrictions on the availability of credit.

After careful consideration of the oral testimony at the public hearings and the 700 written letters of comment on the proposed Regulation B, the Board of Governors issued a second version for comment on September 5, 1975. About 600 additional comments were received from creditors, women's groups, individuals, representatives of State and local governmental bodies, and the members of Congress. The Board again carefully evaluated the numerous suggestions for further technical changes and issued a final version of Regulation B on October 16, 1975.

In issuing the new regulation the Board said:

The Equal Credit Opportunity Act constitutes a determination by the Congress that sex or marital status of an applicant shall not be used, as such, in evaluating the applicant's creditworthiness.

The Regulation attempts to reconcile the statutory goal of equal access to credit—without regard to sex or marital status—with the need to preserve the creditor's ability to distinguish, in the creditor's own judgment, between applicants that are, or are not, creditworthy.

We have issued this Regulation pursuant to the direction of the Congress that the Federal Reserve Board should write implementing rules, to be enforced by a number of Federal agencies acting in their own jurisdiction, after very extensive consultation with the public including women's groups, other consumers, creditors large and small, individuals and the Congress. Our aim is to facilitate broader and fairer access to credit on a basis of creditworthiness alone.

In several instances, where the regulation required changes to be made on a large scale in recordkeeping or computer programs, in training of employees, or in forms and information supplied to customers in order to conform to the regulation, the Board gave creditors various periods of time in which to comply. However, the provisions of the Act itself against discrimination on the basis of sex or marital status are in force during the transition period.

A failure to comply with certain requirements of the regulation is not a violation if it is caused by mechanical, electronic, or clerical error, in circumstances making it clear that the creditor had established and was maintaining suitable compliance procedures.

The regulation exempts from certain specific procedural provisions credit issued merely as an incident to doing business, such as credit given by dentists, doctors, or small shopkeepers not obtained by use of a credit card, where no finance or late charge is made and where there is no agreement making the credit payable in more than four instalments.

There are also partial exceptions from certain procedural provisions for business credit, securities credit, and public utilities credit. These partial exceptions, however, do not exempt such creditors from the basic prohibition of the Act against discrimination on the basis of sex or marital status.

Effective June 30, 1976, the regulation requires that—except where applications for credit are made by telephone, or made orally for an amount exceeding an existing limit on an open-end account—creditors must give applicants the following written notice:

The Federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of sex or marital status. The Federal agency which administers compliance with this law concerning this (insert appropriate description—bank, store, etc.) is (name and address of the appropriate agency).

Between November 1, 1976, and February 1, 1977, creditors are required, with some exceptions, to mail to all customers or to all married customers, a notice set forth in the regulation notifying them of their rights under the Act to have credit reports of accounts of married persons made in both names. Both spouses are entitled to the credit history of the account where both are contractually liable for the account or are allowed to use it. The information must be retrievable in the name of either spouse.

The regulation forbids:

—With certain exceptions, terminating credit on an existing account because of a change in an applicant's marital status without evidence that the applicant is unable or unwilling to pay.

—With certain exceptions, requiring or using any unfavorable information about a spouse or former spouse where an applicant applies for credit independently of his or her spouse, and can demonstrate that the unfavorable history should not be applied.

The regulation provides certain permissible inquiries or actions regarding a spouse, which may have the following scope:

(1) Where an applicant seeks unsecured individual credit, questions as to marital status may be asked only in a community property State, or if necessary to comply with certain State laws as to permissible finance charges or loan ceilings.

(2) Where the applicant seeking credit relies on the creditworthiness of the nonapplicant spouse, the creditor may request and consider any information that might be considered about the spouse.

(3) Creditors may not prohibit an applicant from opening or maintaining an account in birth-given first name and surname.

(4) Creditors may require the signatures of both spouses where State law requires, or probably requires, both signatures in order to pass clear title, to create valid liens, or to waive inchoate (potential) rights to property or to assign earnings.

(5) State law notwithstanding, a creditor may extend separate credit to each spouse if each applies separately and voluntarily.

—Where this preempts State law, each spouse is solely responsible for the credit separately obtained.

—Where separate credit is extended, each account is treated separately in determining permissible finance charges or loan ceilings, under conditions described in the regulation.

(6) State laws are preempted only if they conflict with the Act or regulation, and only to the extent that they do so.

Enforcement of the Equal Credit Opportunity Act and the regulation is the responsibility of the Federal Trade Commission except as specifically assigned to other Federal agencies, including the Federal Reserve System, the Federal Deposit Insurance Corporation, the Comptroller of the Currency, and several others.¹

To help secure broad public understanding of the regulation, public seminars have been held by the Reserve Banks in each of the Federal Reserve districts. System personnel have also appeared at numerous other meetings and seminars for the same purpose. In addition, a pamphlet describing the regulation for the benefit of consumers is currently in preparation.

¹ Federal Home Loan Bank Board acting directly or through the Federal Savings and Loan Insurance Corporation; Administrator of the National Credit Union Administration; Interstate Commerce Commission; Civil Aeronautics Board; Secretary of Agriculture; Farm Credit Administration; Securities and Exchange Commission; and the Small Business Administration.

Approximately 1.25 million copies of the regulation and 6,000 copies of the Board's press release explaining its provisions have been printed or duplicated and are in the process of distribution through the 12 Federal Reserve Banks and the 11 other agencies charged by the Congress with the duty of securing compliance by various categories of creditors. Procedures similar to those used for securing a wide distribution of Board and staff interpretative opinion letters on Truth in Lending have been set up to distribute similar letters on Equal Credit Opportunity, and these letters are also available in the Board's public information file. General availability of these letters should, it is hoped, result in broader public understanding and acceptance of the Act and its requirements.

Interpretation

The Board of Governors of the Federal Reserve System has issued one clarifying interpretation of the Equal Credit Opportunity Act regulation which made it clear that banks in Pennsylvania may continue to make Federally guaranteed loans to married students under programs administered by the Federal Department of Health, Education, and Welfare by requiring the signature of both spouses until January 31, 1976. This interpretation resolved the doubt of Pennsylvania banks as to whether the banks are protected from lawsuits arising out of the Regulation B provision prohibiting creditors from requiring the signatures of both spouses in connection with the extension of credit. It permits this practice to continue until January 31, 1976, by which time it is expected that Pennsylvania State regulations can be amended to bring them into compliance with Regulation B.

Changes in law and amendments

The Board is deferring any recommendations regarding changes in the law until more experience has been gained through the implementation of the present regulation. When and if experience should indicate that substantive changes in the law are necessary to implement the intent and purpose of the statute or relieve the credit industry of burdens unforeseen by the Congress, the Board will recommend suit-

able changes, as it has done from time to time with respect to the Truth in Lending Act.

The Board also has presented its views in testimony before both the House and the Senate Banking Subcommittees on Consumer Affairs on proposed legislation amending the Equal Credit Opportunity Act.

Although the Board strongly favors the elimination in credit transactions of all discrimination based on factors other than an individual's creditworthiness, the Board has recommended that the Congress delay enactment of this legislation until there has been sufficient opportunity to benefit from experience in implementing the regulation under the sex and marital status provisions of the Equal Credit Opportunity Act.

FEDERAL TRADE COMMISSION IMPROVEMENT ACT

Pursuant to Section 18(f)(5) of the Federal Trade Commission Act, 15 U.S.C. Section 41 *et seq.*, as amended by the Federal Trade Commission Improvement Act (Public Law 93-637), the Board of Governors of the Federal Reserve System submitted to the Congress this first annual report (dated March 15, 1976) on its activity during the year 1975 with respect to its responsibilities in regard to unfair or deceptive acts or practices of banks.

On January 4, 1975, the Federal Trade Commission Improvement Act (hereinafter the Act), an amendment to the Federal Trade Commission Act, was signed into law as Title II of the Magnuson-Moss Warranty-Federal Trade Commission Improvement Act (Public Law 93-637). The Act imposes three distinct obligations on the Board: (1) The Board is directed to establish a procedure for handling consumer complaints regarding unfair or deceptive acts or practices of State member banks; (2) the Board is granted broad independent rule-making authority and is directed to prescribe regulations to prohibit any unfair or deceptive acts or practices of banks, including all insured banks, whether or not members of the Federal Reserve System; and (3) whenever the Federal Trade Commission (FTC) promulgates a rule defining unfair or deceptive acts or practices, the Board is required to issue—within 60 days after the effective date of such rule—a substantially similar regulation applicable to banks, unless the Board

finds either that such acts or practices of banks are not unfair or deceptive or that implementation of similar regulations with respect to banks would seriously conflict with essential monetary and payments systems policies of the Board. This annual report details the Board's actions during the past year with respect to each of these three areas of responsibility.

Consumer complaint procedure

Section 18(f)(1) of the amended Federal Trade Commission Act requires each Federal bank regulatory agency to establish a separate division of consumer affairs to receive and take appropriate action on consumer complaints pertaining to unfair or deceptive practices of banks under its jurisdiction. Anticipating passage of the legislation, the Board, in August 1974, established a separate Office of Saver and Consumer Affairs (OSCA). This office administers the consumer protection legislation assigned to the Board, including the Truth in Lending Act, Fair Credit Reporting Act, Fair Credit Billing Act, Title VIII of the Civil Rights Act of 1968, Equal Credit Opportunity Act, and the Home Mortgage Disclosure Act, in addition to the Federal Trade Commission Improvement Act. OSCA has been designated by the Board to receive consumer complaints pertaining to unfair or deceptive acts or practices by banks, as well as complaints on the other consumer protection Acts assigned to the Board, and to take appropriate action on them. OSCA and the Office of the Secretary have been designated to assist the Board in assuring that consumer aspects of all Board actions receive suitable attention. In addition, OSCA administers the securities credit regulations under the Securities Exchange Act of 1934.

The Board views the complaint procedure envisioned by the FTC Act as an essential aspect of the regulatory authority granted by it. In making a determination as to whether an act or practice is unfair or deceptive within the meaning of the Act, great weight must be given to the experiences of consumers in their dealings with the banking industry. A record of consumer problems provides a basis for identifying areas that may require regulatory action. During 1975, OSCA developed a formal complaint procedure and augmented its consumer affairs staff to implement and manage it. This complaint procedure has been put into operation both at the Board and at the

Federal Reserve Banks and branches. It serves the dual purposes of (1) assuring consumers prompt and responsive action on their complaints concerning individual banks, and (2) providing an effective mechanism for identifying bank practices that consumers believe to be unfair or deceptive and for determining whether such practices call for corrective measures.

Under the Board's complaint procedure, the System staff records and categorizes each complaint received and its disposition on a standard complaint report form. Records of all complaints received throughout the System are maintained at a central location. The complaints are analyzed and classified to enable the Board to identify any emerging patterns of abuse. A significant number of complaints involving, for example, a particular practice, bank, or geographic area will signal the need for further investigation and may lead to regulatory action.

There were an estimated 106 complaints of unfair or deceptive acts or practices received in 1975, 14 received by the Board and 92 by the Federal Reserve Banks. Seventy-eight of these complaints involved non-State member banks and the remaining 28 concerned State member banks. Sixty-four complaints were resolved, 41 were referred to other appropriate agencies for action, and 1 is still pending. A number of complaints concerning nonmember banks were resolved by System staff without referral.

The most significant recurring complaints were in the areas of advertising, accounting procedures, service charges, and interest on savings accounts. Other complaints were received concerning discrimination in provision of services, collection and repossession procedures, difficulties in error resolution, and false and misleading information.

There was no concentration of complaints within a geographical area, nor were there recurring complaints involving the same institutions.

The Comptroller of the Currency and the Federal Deposit Insurance Corporation have each developed complaint procedures similar to the Board's for handling consumer complaints, and the Board has arranged to receive periodic summaries of the complaint data collected by these agencies for analysis along with the Board's complaint records. The Board feels that the information that is being gathered through these procedures by the Federal Reserve System

and the other Federal bank regulatory agencies will provide a means of monitoring the banking industry to help assure the detection and prevention of unfair or deceptive practices and practices which potentially might be considered unfair or deceptive.

Exercise of regulatory authority

The Federal Trade Commission Improvement Act became effective in 1975 and, prior to any exercise of regulatory authority, the Board set out to familiarize itself with the Act's mandates and their implications. The Board staff explored such issues as the methods provided under the Act to enforce bank compliance with Board regulations, the rule-making procedures applicable to the Board, whether the Act required the Board to issue regulations substantially similar to FTC rules that are not promulgated in accordance with the new procedure specified in the Act (Section 202(c)(1) rules), the FTC's criteria for determining unfairness, and the degree of latitude given to the Board to modify FTC rules or to issue no corresponding rules.

After studying and analyzing the Act, the Board held a conference to explain the Act's requirements and implications to the Federal Reserve Bank and branch office personnel responsible for its administration. The Board also established liaison with the Office of Consumer Protection at the FTC to insure that the Board would be informed in advance of FTC plans regarding proposal of regulations. This will help enable the Board to meet the requirement that substantially similar regulations be promulgated within 60 days of the effective date of FTC regulations.

Initiation of regulations by the Board. The Federal Trade Commission Improvement Act grants to the Board broad independent rule-making authority to prohibit unfair or deceptive bank practices. While the Board did not propose any rules pursuant to this authority during 1975, with the implementation of the complaint procedure throughout the Federal Reserve System and the formalization of liaison with the consumer complaint divisions of the other Federal bank regulatory agencies, the preliminary measures necessary to the knowledgeable exercise of this authority have been completed.

The Board staff has been reviewing possible regulatory action as to the advertising of "free" checking and other bank services as a result of

both consumer and industry complaints indicating possible deceptive practices in the field. These practices are also receiving the attention of the banking industry as evidenced by the establishment by the Bank Marketing Association of a Financial Advertising Committee on Ethics, which has proposed a financial services advertising code of ethics.

Issuance of substantially similar regulations. During 1975, the FTC proposed two trade regulation rules which, if adopted, would trigger the requirement that the Board adopt substantially similar regulations.

Unfair credit practices. On April 9, 1975, the FTC proposed an Unfair Credit Practices Rule and published it for comment. While the time frame specified in the Act requires only that the Board issue similar regulations within 60 days after FTC rules become effective, the Board felt that, in order to provide all interested parties sufficient time to express their views and still be in a position to meet the 60-day mandate, the best approach was to publish for comment a proposal substantially similar to that of the FTC as soon as possible after the FTC published its proposal. This approach allows the Board sufficient time to carefully analyze the comments and incorporate them into the Board's own comments to the FTC.

Thus, on April 24, 1975, the Board proposed an Unfair Credit Practices Rule substantially similar to the rule proposed by the FTC and requested comments from interested parties. The proposal would define as an unfair practice the use of any of the following contract provisions in consumer credit transactions:

1. Cognovits, confessions of judgment, warrants of attorney, powers of attorney, or other waivers of the right to notice and the opportunity to be heard in the event of suit or process thereon.
2. Waivers or limitations of property exemptions, such as homestead exemptions, from attachment or execution.
3. Blanket security interests in "household goods" and cross collateral clauses which have a similar effect.
4. Provisions for charges for late or extended payments which exceed the amount derived by applying the annual percentage rate to the late or extended payments.
5. Security interest provisions which fail to specifically enumerate and identify each item of affected property.

6. Assignments of wages (an alternate provision would limit the use of wage assignments to transactions involving \$300 or less where no other security interest is reserved).

7. Attorney's fee provisions (an alternate provision would limit the amount of such fees and restrict their assessment to instances where an account is actually referred to an attorney who is not the creditor's employee).

Failure to make the following stipulations in the consumer credit contract would also be considered an unfair practice:

1. Debtors will be credited with the fair market retail value of any repossessed property.

2. Creditors will not contact any person other than the debtor, his spouse, or his attorney in collecting the debt.

The proposed rule also provides for written disclosures of co-signer liabilities at least 3 days prior to the signing of a co-signer agreement, and requires that co-signer agreements disclose the maximum co-signer liability and stipulate that the co-signer will not be held liable for any amount unless the creditor promptly notifies the co-signer of any default by the debtor and pursues the debtor with "due diligence."

The Board received over 700 comments from banks, bankers' associations, and consumers on the proposed Unfair Credit Practices Rule, and these comments are being categorized and analyzed to aid in the formulation of the Board's comments to the FTC. Also in preparation for developing the Board's comments to the FTC, the Board staff has been studying the practices addressed by the proposal with reference to the unfairness analysis applied by the FTC and alternative approaches to the practices taken by the Uniform Consumer Credit Code, the Model Consumer Credit Act, the recommendations of the National Commission on Consumer Finance, and selected State laws. The Board plans to submit its comments and suggestions to the FTC in the near future.

Preservation of consumers' claims and defenses. On November 14, 1975, the FTC proposed an amendment to its trade regulation rule entitled "Preservation of Consumers' Claims and Defenses." The Board published this proposed amendment for comment on February 3, 1976.

The FTC's proposal, if adopted, would make it an unfair practice

for a seller or a creditor to take or receive a consumer credit contract which does not include a provision indicating that any holder of the contract remains subject to all claims and defenses which the debtor could assert against the seller of the goods or services that were the subject of the contract or were purchased with its proceeds. The rule would have the effect of preventing all creditors and assignees of consumer credit contracts from relying on the holder in due course doctrine to separate the consumer's duty to pay from the seller's duty to perform. It would allow a consumer to raise any claims or defenses which he can assert against the seller of goods or services against a creditor who purchases his consumer credit contract or who makes a purchase money loan (as defined in the rule) to enable the consumer to buy the goods or services.

At the close of the year, the proposed "holder in due course rule" was being analyzed as the initial step in preparation of the Board's comments to the FTC.

TRUTH IN LENDING

This seventh Annual Report on Truth in Lending (dated January 3, 1976) is submitted to the Congress by the Board of Governors of the Federal Reserve System. This report includes information on the Board's administration of its functions under the Truth in Lending Act and an assessment of the extent to which compliance with the requirements of the Truth in Lending Act is being achieved. The Board plans to submit recommendations for amendments to the Act early in 1976 in its regular ANNUAL REPORT.¹

Administrative functions

Office of Saver and Consumer Affairs. The responsibilities of the Office of Saver and Consumer Affairs (OSCA), established in August 1974 to administer the Board's Truth in Lending and Securities Credit regulatory functions, have expanded during 1975 to include implementation and administration of the Fair Credit Billing and Equal Credit Opportunity Acts (Titles III and V of Public Law

¹ See p. 277 of this REPORT.

93-495), as well as rule-writing authority to prohibit unfair or deceptive acts or practices of banks (Federal Trade Commission Improvement Act, Title II of Public Law 93-637).

Amendments and interpretations—Regulation Z

Fair Credit Billing Act regulations. In September 1975 the Board issued final regulations amending Regulation Z to implement the Fair Credit Billing Act, an amendment to the Truth in Lending Act contained in Title III of Public Law 93-495. The Fair Credit Billing Act was passed by the Congress because of its concerns that creditors were not responding adequately to allegations of billing errors and that consumers had no effective means of resolving billing disputes.

The issuance of the regulations culminated nearly a year of drafting and redrafting during which time the Board and its staff consulted extensively with consumer and creditor representatives, consultants, and members of the Truth in Lending Advisory Committee to insure that the regulations would provide consumers with all the protections mandated by the Act within a framework that is workable and does not impose unnecessary burdens on consumers or creditors. The proposed regulations were first published by the Board on April 30, following a meeting of the Advisory Committee. The proposal elicited more than 300 comments from interested parties and the general public. After analyzing the issues raised in the comments, the Board published a revised proposal of regulations on July 30 and announced its intention to hold informal hearings to solicit views on some of the more troublesome issues which had arisen.

Hearings were held in early August. The witnesses who testified represented banker, bank card, and retail merchant trade associations, as well as consumer groups. The oral testimony together with the written comments received in response to the revised proposal served as a further basis for drafting the final regulations, which were issued in mid-September and which, except for provisions with specified transition periods, went into effect on October 28, 1975.

The Fair Credit Billing Act and its implementing regulations establish an error resolution procedure for consumers to utilize in resolving credit billing disputes promptly and fairly. The error resolution procedure is designed to assure that consumers asserting billing errors get prompt attention by requiring an acknowledgment of their inquiry

within 30 days and a resolution within two billing cycles (but in no case more than 90 days). While the error resolution procedure is going on, the consumer may withhold payment of amounts in dispute and the creditor may not report to any third party that the consumer is delinquent with respect to such amounts withheld. Failure of a creditor to comply with the billing error or credit reporting provisions of the regulations results in a forfeiture of the disputed amount, up to \$50, regardless of whether or not an error has been made.

The regulations also impose affirmative responsibilities on creditors to eliminate certain practices deemed unfair to consumers who use credit cards or other open-end credit accounts. Creditors of open-end accounts that provide a time period within which the customer may pay without incurring a finance charge must send their periodic statements at least 14 days before the date specified for payment to avoid imposition of finance charges. Creditors must also promptly (a) credit payments to avoid the imposition of any finance charges after a payment is received, (b) credit an account to reflect credit refunds for returned merchandise, and (c) credit or refund any excess payments made on an account.

Another major provision of the regulations allows a consumer, under specified conditions, to withhold payment and assert against a card issuer any claims (other than tort) or defenses to payment that he has against the merchant arising out of the transaction that gave rise to the debt.

The regulations also prohibit certain practices between card issuers and merchants that the Congress considered anticompetitive. Card issuers are prohibited from requiring merchants to obtain from them, as a condition for participating in the card plan, any services that are not essential to the operation of the card plan. Also, card issuers are prohibited from preventing merchants from offering a discount to customers who pay in cash rather than by credit card.

In this connection, the Act and the regulations encourage merchants to offer discounts for payment in cash rather than by credit card by providing that, if specified conditions are met, discounts of up to 5 per cent for cash do not constitute finance charges under the Truth in Lending Act and, consequently, do not have to be disclosed as finance charges on purchases made with credit cards. This provision has created a great deal of controversy with respect to its appli-

cability to surcharges. A surcharge pricing system is one in which an extra charge is levied when a credit card is used and, in effect, results in a cash customer receiving a lower price for paying in cash. The question is whether the Congress intended surcharge systems to be included under the broad designation “discounts for cash.” Arguments on both sides of the issue were advanced during the course of the Board’s deliberations on this question. Since the legislative history gave no clear indication as to congressional intent, and since the “discount” provision is an exception to the general principle of disclosure embodied in the Truth in Lending Act, the Board in its final regulations interpreted the term “discount” narrowly as excluding surcharge pricing systems and wrote to the Congress requesting additional legislative guidance on this question. (A copy of the Board’s letter appears on pages 347 and 348.)

Identification of transactions on periodic billing statements. In September 1975 the Board adopted an amendment to Regulation Z to implement Section 411 of Public Law 93–495. The amendment sets out requirements pertaining to descriptions of credit transactions that creditors are required to furnish to their customers on or with periodic statements under an open-end credit plan.

Section 411 reflects the Congress’ concern that consumers be given sufficient information on or with their periodic statements for open-end credit-card accounts to enable them to identify the individual transactions that appear on their statements. This is especially crucial at a time when increasing numbers of creditors are switching from the more expensive and cumbersome “country club billing,” in which copies of sales vouchers are included with the periodic statement, to “descriptive billing,” in which descriptions of the transactions are substituted for actual copies of the documents evidencing the transactions. The disclosures required by the regulation are designed to aid a consumer in recalling the transactions for which he is billed or in relating the information on the billing statement to a voucher supplied at the time of the transaction. Transition periods were provided to allow time for creditors to make changes in forms, procedures, and computer programming to comply with the final rules.

RESPA disclosure statement. In May 1975 the Board adopted a Truth in Lending disclosure form to assist consumers in understanding the credit terms in purchases of residential real estate. The dis-

closure form was developed pursuant to the Real Estate Settlement Procedures Act (RESPA), 12 U.S.C. Section 2601 *et seq.*, which requires that consumers in home purchase credit transactions be given a Uniform Disclosure/Settlement Statement at least 12 days prior to settlement and again at the time of settlement to insure that they are informed of the closing and credit costs involved in the transaction. As the agency with rule-writing authority for the Truth in Lending Act, the Board developed the credit disclosure portion of the Uniform Disclosure/Settlement Statement.

In conjunction with the adoption of the Truth in Lending disclosure form, the Board developed a set of instructions to accompany it. At the same time, the Board adopted an interpretation of Regulation Z regarding the use of the form.

The Board is aware that amendments to RESPA have now been passed which remove the requirement relating to the use of the credit cost portion of the Uniform Disclosure/Settlement Statement. In light of this action, the Board intends to rescind its implementing interpretation.

Disclosure of closing costs. In October 1975 the Board adopted an amendment to Regulation Z to implement Section 409 of Public Law 93-495 requiring disclosure of closing costs in certain real property transactions—transactions in which a security interest in real property is or will be retained or acquired by the creditor. The amendment requires that the disclosures be given prior to the making of any downpayment in the case of credit sales and at the time the creditor makes a loan commitment in other extensions of credit.

The amendment does not apply to transactions subject to RESPA or to transactions exempted from RESPA by the Department of Housing and Urban Development. The disclosure provisions are limited to real property transactions because the Board felt that in other types of transactions closing costs generally are either not present or minimal in amount and not likely to vary from creditor to creditor.

The provisions of the amendment were to go into effect on January 31, 1976. This transition period took account of the fact that the Congress was considering, on the Board's recommendation, the repeal of Section 409 of the Act. Now that this section has been repealed, the Board intends to rescind the implementing Regulation Z provision.

Variable interest rates. In December 1974 the Board issued for comment a proposal to amend Regulation Z to require other than open-end creditors to disclose certain information pertaining to any variable interest rate clauses contained in their promissory notes or other contractual instruments. In general, these clauses permit a creditor to raise or lower the contract rate of interest in response to fluctuations in market rates. They are most often found in long-term obligations such as home mortgages, but they were seldom invoked until recently when market rates increased dramatically.

Numerous comments on this proposal have been received. The Board is currently analyzing these comments, and action on the proposal should be forthcoming.

Disclosure of single-component finance charge. In November 1975 the Board adopted an interpretation of Regulation Z, Sections 226.8 (c) (8) (i) and 226.8(d) (3), which require the disclosure of the total amount of the finance charge with a "description of each amount included." The interpretation relates to the application of these provisions to other than open-end credit transactions when the finance charge is composed of only a single element. The interpretation provides that, in instances in which there is only a single-component finance charge, the creditor may simply disclose that single element under the term "finance charge" without further identification or description. However, where there is more than one element comprising the finance charge, creditors are required under Regulation Z to describe each amount included in the finance charge.

Cash-advance checks and other supplemental credit devices. In September 1975 the Board adopted an amendment to Regulation Z requiring open-end creditors who send their customers blank checks or other supplementary credit devices intended for use in connection with their open-end credit accounts to clearly disclose the charges and other pertinent credit information specifically related to the use of the credit device delivered.

The Board became aware of the need for the amendment when many bank card issuers began providing their cardholders with what appeared to be personalized checks but which, in fact, were instruments activating cash-advance loans charged to a customer's credit account. Prior to adoption of this amendment, if a creditor had disclosed the terms of a cash-advance loan before the customer used the open-end account, the creditor was not required to disclose cash-

advance terms when the checks were issued. The Board felt that, since the account may have been opened several years earlier, new disclosures of the terms of check-activated cash-advance loans should be repeated at the time of issuance of such checks. These disclosure requirements also apply to other new credit devices incorporated into an open-end account. The requirements become effective in January 1976.

Title IV of Public Law 93-495: Amendments to the Truth in Lending Act. Title IV of Public Law 93-495 contained a number of amendments to the Truth in Lending Act which were designed to improve administration of that Act. These amendments effectuate many of the recommendations that the Board has made to the Congress in previous annual reports. In July 1975 the Board adopted a series of amendments to Regulation Z to implement most of these changes. These amendments provide that:

1. Advertisements concerning extensions of credit repayable in more than four instalments and for which there is no finance charge identified shall state that the cost of credit is included in the price of the goods and services (Section 401).

2. Credit transactions primarily for agricultural purposes where the amount financed exceeds \$25,000 are exempt from the disclosure provisions of the Truth in Lending Act and Regulation Z (Section 402).

3. Enforcement responsibilities under the Truth in Lending Act be removed from the Interstate Commerce Commission and that the Farm Credit Administration be added as an enforcement agency for agricultural credit institutions under its supervision (Section 403).

4. The right of rescission in residential real property transactions expires 3 years from the date of the consummation of the transaction or upon the sale of the property, whichever occurs earlier (Section 405).

5. Issuers of credit cards and businesses or organizations may contract without regard to the other relevant provisions of Regulation Z regarding the liability for unauthorized use of the cards when (a) the card issuer issues 10 or more cards to a single business or organization for use by its employees, and (b) the liability imposed on such employees for unauthorized use does not exceed \$50, the amount permitted by Regulation Z (Section 410).

6. Any credit transaction involving an agency of a State as creditor is not subject to the right of rescission (Section 412).

7. The creditor of an open-end account may allow a longer period than that disclosed to the customer in which to make payment in full and avoid additional finance charges (Section 415).

8. Section 226.1(c), which refers to statutory civil and criminal penalties, is revised to include provisions for (a) criminal liability for

certain fraudulent acts related to credit cards (Section 414), (b) civil liability in individual or class actions for creditors who fail to comply with Chapter 2 or Chapter 4 (Fair Credit Billing) and corresponding provisions of Regulation Z (Section 408), (c) a creditor's defense for good faith compliance with Regulation Z (Section 406), (d) single recovery for multiple failures to disclose in a single account (Section 407), and (e) civil liability of assignees for violations of disclosure requirements where the violation is apparent on the face of the instrument assigned (Section 413).

Advisory committee. As previously mentioned, the Board convened a meeting of the Truth in Lending Advisory Committee in the past year. The meeting took place on April 22, 1975, and was held for the purpose of obtaining members' views on the Board's proposal of regulations to implement the Fair Credit Billing Act. The Committee discussed policy objectives of the proposed regulations and undertook a section-by-section analysis of the proposal to pinpoint areas likely to cause problems for consumers and creditors and to make suggestions as to how these problems might be alleviated. The Committee members suggested solutions which, in many instances, were incorporated into the regulations. (A list of Advisory Committee members appears on page 349).

State exemptions. No new requests from States for exemption from the disclosure, rescission, or credit-card requirements of the Truth in Lending Act were filed with the Board during 1975. The application from Idaho, submitted in 1974, was denied by the Board on the grounds that Idaho law was not substantially similar to the Federal law.

With respect to the exemptions already granted, in light of the numerous amendments to the Act and regulation during 1975, the Board's staff has apprised the exempt States (Connecticut, Maine, Massachusetts, Oklahoma, and Wyoming) of the legislative and regulatory actions required to be taken to assure that their laws remain substantially similar to the Federal Act.

In addition, the Fair Credit Billing Act (Chapter 4 of the Truth in Lending Act) contains a provision similar to the exemption provision in Chapter 2 of the Act authorizing the Board to grant State exemptions from the requirements of the Fair Credit Billing Act when the State law is substantially similar or provides greater protection to consumers. The Board plans to adopt a supplement to Regulation Z that would set out the procedure for procuring State exemptions under

the Fair Credit Billing Act. The supplement would also detail the procedure to be followed by a State in seeking a Board determination as to whether a State law is inconsistent with the Fair Credit Billing Act.

Litigation. While numerous court decisions concerning Truth in Lending were handed down in 1975, the most noteworthy opinion, and the only case directly involving the Board (as *amicus curiae*), was the decision in *Ives v. W. T. Grant Company*,² decided by the U.S. Court of Appeals for the Second Circuit.

The *Ives* decision was significant in two respects. First, it upheld the Board's authority to issue Section 226.12(c) of Regulation Z, which provides that the Federal courts have jurisdiction in all Truth in Lending actions for civil liabilities, including actions arising under statutes of States that have been granted an exemption from the requirements of Chapter 2 of the Truth in Lending Act.

Second, the *Ives* case held that even if a finance charge is composed of only one element, that single element must be individually itemized within the finance charge category. This decision prompted the interpretation adopted by the Board in November 1975 which states that Regulation Z does not require itemization of the only element of a single-component finance charge.

Education. Federal enforcement agencies and the exempt States are continuing their efforts to educate consumers and creditors as to their rights and responsibilities under the Truth in Lending Act. Wyoming has added a consumer education specialist to its staff and has developed a 7-hour consumer credit educational presentation to be used in high schools, colleges, and adult education programs. Oklahoma has developed three curriculum guides and revised its *Teachers' Guide to Consumer Credit*, which is used by more than 1,600 teachers statewide. Oklahoma has also published a *Dictionary of Credit Terms*, as well as public information booklets highlighting the substantive provisions of that State's credit laws. Connecticut, in conjunction with the Connecticut Coordinating Council for Consumer Affairs, has established a credit counseling service to help consumers who experience credit problems.

The Division of Consumer Education of the Federal Trade Com-

² Decided July 31, 1975, U.S.C.A. for the Second Circuit (4 CCH *Consumer Credit Guide*, paragraph 98,561).

mission (FTC) has developed public service announcements that have been distributed by the FTC regional offices to radio and television stations, newspapers, and professional educators. These announcements are designed to inform consumers how to use Truth in Lending terms when shopping for credit and are distributed in both English and Spanish. The FTC's Division of Consumer Education also prepared an article entitled "Shopping for Credit Can Save You Cash," which appeared in the *Yearbook of Agriculture*.

The National Credit Union Administration has developed a new publication to assist credit union officials in complying with Truth in Lending and other statutes that affect credit union operations.

The Board has been deeply involved in educational efforts over the last year, with the bulk of its efforts directed at informing consumers and the credit industry about the new Fair Credit Billing Act regulations. The Board has published a revised pamphlet on Regulation Z, as amended through October 28, 1975, incorporating changes made by the Fair Credit Billing amendments and other amendments to the regulation; the revised pamphlet also includes additions to the appendixes which set forth the Fair Credit Billing Act, questions and answers on that Act, and copies of the statements of Fair Credit Billing Act rights and responsibilities which must be sent to customers under the Act.

In addition, the Board has held numerous educational sessions throughout the country to train enforcement personnel and to inform creditors of their responsibilities under the Fair Credit Billing Act. The Board sponsored a conference for representatives of the Federal Reserve Banks and other enforcement authorities to acquaint them with the regulations, and meetings have been held at each of the Federal Reserve Banks at which staff of the Banks (assisted by Board staff) explained the new regulations to creditors and answered their questions on the regulations. System staff has also participated in various radio and television presentations to make consumers aware of their rights.

During the past year, the Board's staff has also participated in the Bank Examiner's Schools and has developed an examiners' manual to be used by the examining staff of the Federal Reserve Banks in checking for Truth in Lending compliance; the Board plans to update

this manual to include a section on compliance with the Fair Credit Billing Act.

The Federal Reserve Bank of San Francisco has developed a pamphlet designed to acquaint consumers with their rights under the Fair Credit Billing Act and began its distribution in the San Francisco district. The Federal Reserve Bank of Atlanta is also distributing this pamphlet.

Compliance

Based upon reports from eight other Federal enforcement agencies and five exempt States, the Board believes that substantial compliance with the written disclosure requirements of the Truth in Lending Act is being achieved. As has been the case in past years, the general consensus among the Federal agencies and the exempt States is that the larger creditors, who have access to legal counsel and who are thus better able to handle the complexities of the Act and regulation, have the best record of compliance. The compliance record of the smaller creditors is not so good but continues to improve as their knowledge of the Act increases. The enforcement agencies and the States generally feel that most violations of the Act are technical in nature, resulting from inadvertent error or a lack of understanding, particularly with regard to irregular, complex transactions. However, the Federal Deposit Insurance Corporation (FDIC) has reported that it has encountered a limited number of banks which do represent supervisory problems and has in fact referred five cases of apparent willful and knowing violations to the Justice Department for possible criminal prosecution.

It is interesting to note that the Comptroller of the Currency, the FDIC, and the State authorities in Connecticut this year report an increased number of violations over past years, but they attribute this to better examination procedures, increased sophistication of their examiners, and greater awareness on the part of consumers reporting violations rather than to a trend toward increased noncompliance.

The FTC reports that in the area of credit advertising full compliance with the Act is less prevalent than in other areas, although the level of compliance appears to be steadily increasing. In the

past year, the FTC has begun a pilot program designed to use the Commission's enforcement powers, which have recently been strengthened by the FTC Improvement Act, to bring about a greater degree of compliance with the advertising provisions of the Truth in Lending Act.

As was noted in last year's [Truth in Lending] annual report, the level of compliance with the regulation's oral disclosure requirements has not been as high as it has been with the written disclosure requirements. Last year's report noted, however, that compliance with the oral disclosure requirements appeared to be improving, and the Board has not received any information during the past year which would indicate any change in this trend.

September 16, 1975

The Honorable William Proxmire
Chairman
Committee on Banking, Housing and
Urban Affairs
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am writing to request the assistance of the Congress in resolving a difficult question of Congressional intent which has arisen in the Board's efforts to prescribe regulations required under Section 167 of the Fair Credit Billing Act (Title III of P.L. 93-495).

That Section, which becomes effective October 28, 1975, provides as follows:

“§ 167. Use of cash discounts

“(a) With respect to credit card which may be used for extensions of credit in sales transactions in which the seller is a person other than the card issuer, the card issuer may not, by contract or otherwise, prohibit any such seller from offering a discount to a cardholder to induce the cardholder to pay by cash, check, or similar means rather than use a credit card.

“(b) With respect to any sales transaction, any discount not in excess of 5 per centum offered by the seller for the purpose of inducing payment by cash, check, or other means not involving the use of a credit card shall not constitute a finance charge as determined under section 106, if such discount is offered to all prospective buyers and its availability is disclosed to all prospective buyers clearly and conspicuously in accordance with regulations of the Board.”

Subsection (b) has been the focus of the problem. You will note that the Section does not require any merchant or card issuer to take any action. It merely provides that if a merchant chooses to offer a discount of up to 5 per cent for payment by cash, that discount is excluded from the credit finance charge for the purpose of Truth in Lending disclosures. The discount can thus be offered without making Truth in Lending disclosures at the point of sale.

While the provision appears straightforward, it has given rise to perplexing problems. For example, when merchandise with a posted price of \$100 is available at that price by use of credit card, and at \$96 for cash, the differential is clearly a “discount” covered by the Section. But if an article has a posted price of \$96, and is available at that price for cash, and at \$100 by credit card, there is doubt as to the status of the \$4.00 differential. Is the \$4.00 differential a “discount” within the meaning of the Section, or is it a “premium” or “surcharge” and not a “discount”?

It has been represented to the Board that the economic effect may be largely the same in both cases and that sometimes it may be difficult or impossible in practice to distinguish one type of situation from the other. From this it has been argued that the differential in both cases is a “discount”. On the other hand, it has been contended that the two may differ

widely in their marketing and operating aspects, that the wording of the statute refers only to "discount", and that the price differential in the second case falls outside the statute.

On April 30, 1975, the Board published proposed regulations on the subject that would have excluded the second type of differential from the special treatment provided by the statute. On July 30, 1975, the Board published revised proposals taking the opposite position. You have urged that the "premium" or "surcharge" differential be treated as a "discount". Chairman Annunzio of the Consumer Affairs Subcommittee of the House Banking Committee has urged that it not be treated as a "discount" within the meaning of the statute.

After extended consideration the Board decided by a 4-3 vote to approve a regulation that excludes the second type of price differential from the special treatment provided by the statute. The Board unanimously agreed to seek your assistance in obtaining express legislative action that would make clear the intended application of Section 167 of the statute. The lack of such clarifying action, with attending differences of opinion as to Congressional intent, may well lead to costly litigation and impose substantial burdens on creditors, consumers and the courts.

I am sending similar letters to the Chairman and ranking minority members of the Senate and House Banking Committees and the Consumer Affairs Subcommittees of those Committees.

Sincerely yours,
Arthur F. Burns

Advisory Committee on Truth in Lending

Chairman: Dr. Richard H. Holton
Professor of Business Administration
School of Business Administration
University of California, Berkeley
Berkeley, Calif.

Mr. Harry D. Allen
Collections Manager
Davison Department Store
Atlanta, Ga.

Mr. Robert R. Masterton
President
Maine Savings Bank
Portland, Maine

Mr. James M. Barry
Managing Director
Texas Credit Union League
Dallas, Tex.

Mr. William F. Melville, Jr.
Senior Vice President
Maryland National Bank
Baltimore, Md.

Mr. Edwin B. Brooks, Jr.
President
Security Federal Savings and Loan
Association
Richmond, Va.

Mrs. Faith Prior
Extension Family Economist
University of Vermont
Burlington, Vt.

Mr. O. C. Carmichael, Jr.
Chairman
FBT Bancorp, Inc.
South Bend, Ind.

Mr. Robert W. Pullen
Administrative Vice President
Department of Economics
Colby College
Waterville, Maine

Miss Barbara A. Curran
Senior Research Attorney
American Bar Foundation
Chicago, Ill.

Mrs. Doris E. Saunders
Staff Associate
Office of the Chancellor
University of Illinois
Chicago, Ill.

Dr. Louis F. Del Duca
Professor of Law
The Dickinson School of Law
Carlisle, Pa.

Mrs. Lynnette Taylor
Executive Director
Delta Sigma Theta Sorority
Washington, D.C.

Mr. John E. Eidam
Attorney
Omaha, Nebr.

Mr. Peter R. Thompson
President
Mid-Continent Properties, Inc.
Piqua, Ohio

Mr. William F. James
President
Bill James Enterprises
St. Louis, Mo.

Mr. Harry R. Valas
Vice President
Valas Corporation
Denver, Colo.

Mr. Robert J. Klein
Senior Editor
Money
New York, N.Y.

Miss Barbara A. Zimmelman
Consultant, Urban and
Economic Development
Houston, Tex.

Securities Acts

Amendments of 1975

An Act of Congress, approved June 4, 1975 (Public Law 94-29) among other things:

1. Provides for regulation of municipal securities dealers, including banks. Under the statute, a municipal securities dealer is prohibited from effecting transactions in municipal securities unless registered with the Securities and Exchange Commission. A new Municipal Securities Rulemaking Board is established to adopt rules respecting transactions in municipal securities. Primary enforcement authority with respect to banking organizations is lodged with the bank regulatory authorities for institutions subject to their respective jurisdictions.

2. Provides for regulation of transfer agents and clearing agencies. Those transfer agents and clearing agencies that are banking organizations are regulated primarily by the bank regulatory agencies, although the statute provides for prior consultation between the Securities and Exchange Commission and the bank regulatory agencies with respect to agency rules, inspections conducted, and disciplinary actions instituted.

3. Requires reporting and authentication of missing, lost, stolen, and counterfeit securities by banks, broker-dealers, and others, under such regulations as may be promulgated by the Securities and Exchange Commission.

4. Requires reporting by institutional investors, including banks, that have investment discretion with respect to accounts holding \$100 million or more of equity securities under such regulations as may be promulgated by the Securities and Exchange Commission after consultation with the bank regulatory agencies.

Pursuant to this authority, the Board adopted an amendment to Regulation H on October 17, 1975, and to Regulation Y on November 24, 1975, providing for registration of State member banks, bank holding companies, and certain subsidiaries of bank holding companies that act as transfer agents. By the year-end, 166 State member banks and 32 bank holding companies and subsidiaries of bank holding companies had registered with the Board as transfer agents.

Federal Reserve Banks

PAYMENTS MECHANISM DEVELOPMENTS

During 1975 the Federal Reserve Banks continued programs that placed high priority on improving the Nation's payments mechanism.

The number of clearing and settlement facilities provided by the Federal Reserve for automated clearing house operations increased in 1975 from 5 to 16, with the initiation of operations in several major cities throughout the country. This number is expected to increase again in 1976. Such facilities allow financial institutions and their customers the option of transferring funds on magnetic tape rather than paper checks.

On June 10 the Board of Governors published for comment proposed arrangements for the deposit, delivery, and settlement of payments processed through automated clearing and settlement facilities operated by the Federal Reserve System. Ninety-two comments were received and are currently being analyzed.

On December 18 the Board announced interim guidelines for the delivery of Government payments processed on magnetic tape through Federal Reserve facilities. These guidelines provide financial institutions with a number of options for receiving such payments.

The Air Force's direct deposit program, which allows Air Force personnel to have their pay directly deposited in a financial institution, was converted to electronic transfers nationwide in 1975. Each pay-day the Air Force delivers magnetic tapes containing over 270,000 payroll deposits to Federal Reserve Banks. Over 45 per cent of active duty Air Force personnel are paid in this manner.

The Department of the Treasury and the Social Security Administration proceeded with the direct deposit program announced in 1974. This program, which permits social security recipients to elect to have their benefit checks deposited directly in a financial institution, was expanded nationwide in 1975. More than 3 million recipients are now enrolled. Beginning February 1976, the Treasury will record such direct deposits on magnetic tape and send them through Federal Reserve automated clearing and settlement facilities. The Treasury estimates that monthly payment volume will approach 6.5 million deposits by the end of 1976. Other U.S. Government agencies plan

to convert their recurring payments to similar voluntary programs.

A regional check-processing center was established in Milwaukee in 1975 to provide increased overnight clearings of checks. There are currently 42 such regional centers in operation, with 2 more planned for 1976.

EXAMINATION

The Board's Division of Federal Reserve Bank Examinations and Budgets examined the 12 Federal Reserve Banks and 25 branches during 1975, 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 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 1975 and 1974.

Current earnings of \$6,258 million in 1975 were less than 1 per cent lower than in 1974. The principal changes in earnings were as follows: On U.S. Government securities, an increase of \$37 million; on discounts and advances, a decrease of \$154 million; and on acceptances, an increase of \$26 million. All other earnings increased \$70 million, reflecting the effect of a full year's interest paid by the Federal Deposit Insurance Corporation on the loan resulting from the closing of the Franklin National Bank on October 8, 1974.

There was a \$202 million net deduction in the profit and loss account, primarily because of a \$242 million net loss on foreign exchange transactions and profits of \$37 million on sales of U.S. Government securities. In foreign exchange transactions, losses of \$250 million resulted from a revaluation of outstanding pre-August 1971 swap drawings to reflect devaluation of the dollar in December

1971 and February 1973 and revaluation of the Belgian franc in December 1971. This was partially offset by an \$8 million profit on foreign exchange operations during the year.

Current expenses were \$585 million, or \$38 million more than in 1974. The expenses in 1975 include \$0.9 million from depreciation on operating equipment due to a new policy of capitalizing individual pieces of equipment that cost more than \$10,000. In the past the cost of such equipment has been charged to expenses in the year of purchase.

Statutory dividends to member banks amounted to \$55 million, an increase of \$2 million from 1974. The rise in dividends reflected an increase in the capital and surplus of member banks and a consequent increase in the paid-in capital stock of the Federal Reserve Banks.

Payments to the U.S. Treasury as interest on Federal Reserve notes totaled \$5,382 million for the year, compared with \$5,550 million in 1974. 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 1975 is shown in Table 6, pages 374 and 375, and a condensed historical statement in Table 7, pages 376 and 377.

Earnings, expenses, and distribution of net earnings of Federal Reserve Banks, 1975 and 1974

In thousands of dollars

Item	1975	1974
Current earnings.....	6,257,937	6,280,091
Current expenses.....	585,066	547,541
Current net earnings.....	5,672,871	5,732,550
Net deduction from current net earnings.....	-202,370	-78,487
Net earnings before payments to U.S. Treasury....	5,470,501	5,654,063
Dividends paid.....	54,609	52,580
Payments to U.S. Treasury (interest on F.R. notes).....	5,382,064	5,549,999
Transferred to surplus.....	33,828	51,484

HOLDINGS OF LOANS AND SECURITIES

The accompanying table shows holdings, earnings, and average interest rates on loans and securities of the Federal Reserve Banks during the past 3 years.

Average daily holdings of loans and securities during 1975 amounted to \$89,442 million—an increase of \$3,937 million over 1974. Holdings of U.S. Government securities increased \$5,297 million, loans decreased \$1,860 million, and acceptances increased \$500 million.

The average rates of interest on holdings were down from 7.27 to 6.87 per cent on U.S. Government securities, from 8.08 to 6.41 per cent on loans, and from 10.42 to 7.11 per cent on acceptances.

Reserve Bank earnings on loans and securities, 1973-75

Item and year	Total	U.S. Govt. securities ¹	Loans	Accept- ances
	In millions of dollars			
Average daily holdings: ²				
1973.....	77,837	76,058	1,678	101
1974.....	85,505	83,164	2,055	286
1975.....	89,442	88,461	195	786
Earnings:				
1973.....	5,013.6	4,896.5	109.4	7.7
1974.....	6,239.5	6,043.6	166.1	29.8
1975.....	6,149.5	6,081.1	12.5	55.9
	In per cent			
Average rate of interest:				
1973.....	6.44	6.44	6.52	7.62
1974.....	7.30	7.27	8.08	10.42
1975.....	6.88	6.87	6.41	7.11

¹ Includes Federal agency obligations.

² Based on holdings at opening of business.

VOLUME AND COST OF OPERATIONS

Tables 9 and 10, pages 379 and 380, show the volume and cost of the principal operations of the Federal Reserve Banks for 1972-75.

Upward trends continued in both the number and dollar amounts of currency, coin, checks, and transfers of funds handled. The number of pieces of paper money received and counted totaled 7.7 billion, an increase of about 5 per cent over 1974, and amounted to \$66.1 billion. The volume of coin processed increased about 2 per cent to 15.4 billion pieces. The number and dollar amount of checks received for collection on commercial banks rose 5 per cent to 11.4 billion and \$4.3 trillion, respectively, and the number of U.S. Government checks handled increased 17 per cent to 844 million. Transfers of funds through the Reserve Banks increased by 20 per cent, to 17.5 million transfers, or \$31.4 trillion in value.

The increased volume was in general handled by a smaller staff, reflecting gains in productivity. The number of conventional check-item passes per manhour rose to 1,950 from 1,734, and the number of pieces of paper money counted per manhour rose to 4,300 from 4,035. The total cost of the currency operation—both paper money and coin—increased by 12 per cent to \$99 million, mainly because of higher costs associated with the printing of Federal Reserve notes and with the shipping of supplies of currency and coin to member commercial banks.

LOAN GUARANTEES FOR DEFENSE PRODUCTION

Under the Defense Production Act of 1950, the Departments of the Army, Navy, and Air Force, the Defense Supply Agency of the Department of Defense, the Departments of Commerce, Interior, and Agriculture, the General Services Administration, the National Aeronautics and Space Administration, the Energy Research and Development Administration, and the Nuclear Regulatory 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 1975 the guaranteeing agencies authorized the issuance of one new guarantee agreement. Loan authorizations outstanding on December 31, 1975, totaled \$52.2 million, of which \$50.9 million represented outstanding loans and \$1.3 million represented additional credit available to borrowers. Of total loans outstanding, 10 per cent on the average was guaranteed. During the year approxi-

mately \$1 million was disbursed on guaranteed loans, all of which are revolving credits.

Authority for the V-loan program will terminate on September 30, 1977.

Table 15 on page 385 shows guarantee fees and maximum interest rates applicable to Regulation V loans.

FOREIGN ACCOUNTS

Assets held for account of foreign countries at the Federal Reserve Banks increased \$5,738 million in 1975. At the end of the year such assets amounted to \$79,505 million: \$353 million of dollar deposits; \$12,209 million of earmarked gold; \$60,019 million of U.S. Treasury securities (including securities payable in foreign currencies); \$293 million of bankers acceptances purchased through Federal Reserve Banks; and \$6,631 million of miscellaneous assets. The last item consists mainly of dollar bonds issued by foreign countries and international organizations and debt securities of U.S. Federally sponsored agencies and U.S. corporations.

The Federal Reserve Banks did not make any loans against gold collateral in 1975.

The Federal Reserve Bank of New York continued to act as depository and fiscal agent for international and regional organizations. As fiscal agent of the United States, the Bank continued to operate the Exchange Stabilization Fund pursuant to authorization and instructions of the Secretary of the Treasury. Also on behalf of the Treasury Department, it administered foreign assets control regulations pertaining to blocked assets in the United States of the following countries and their nationals: North Vietnam, Cuba, the People's Republic of China (pertaining to assets blocked before May 7, 1971), North Korea, Cambodia (since April 17, 1975), and South Vietnam (since April 30, 1975), and to transactions with those countries and their nationals.

FEDERAL RESERVE BANK PREMISES

During 1975 the Board authorized construction of a new building for the Federal Reserve Bank of Richmond.

Table 8 on page 378 shows the cost and book value of bank premises owned and occupied by the Federal Reserve Banks and of real estate acquired for banking-house purposes.

Board of Governors

INCOME AND EXPENSES

The accounts of the Board for the year 1975 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, 1975 and 1974, 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, 1975 and 1974, 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, 1976

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BALANCE SHEET

ASSETS	December 31	
	1975	1974
OPERATING FUND:		
Cash.....	\$ 1,521,250	\$ 5,111,271
Miscellaneous receivables and advances.....	69,250	211,915
Stockroom and cafeteria inventories—at cost (first-in, first-out method).....	154,764	166,299
Total operating fund.....	1,745,264	5,489,485
PROPERTY FUND:		
Land and improvements.....	927,090	781,913
Buildings.....	49,706,807	4,452,156
Furniture and equipment.....	4,234,934	2,129,054
Construction-in-progress.....	140,388	45,964,619
Computer.....	3,971,412	3,971,412
Total property fund.....	58,980,631	57,299,154
	\$60,725,895	\$62,788,639
LIABILITIES AND FUND BALANCES		
OPERATING FUND:		
Accounts payable and accrued expenses.....	\$ 1,093,549	\$ 2,733,445
Income taxes withheld.....	116,749	89,339
Accrued payroll.....	901,344	698,040
Retention on construction-in-progress.....	76,194	850,181
	2,187,836	4,371,005
Fund balance:		
Balance, beginning of year.....	1,118,480	4,148,023
Excess of expenses over assessments.....	(1,561,052)	(3,029,543)
Balance, end of year.....	(442,572)	1,118,480
Total operating fund.....	1,745,264	5,489,485
PROPERTY FUND:		
Fund balance:		
Balance, beginning of year.....	57,299,154	42,918,039
Additions—at cost.....	1,702,490	14,549,577
Disposals—at cost.....	(21,013)	(168,462)
Net increase.....	1,681,477	14,381,115
Total property fund, end of year.....	58,980,631	57,299,154
	\$60,725,895	\$62,788,639

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF ASSESSMENTS AND EXPENSES

	Year ended December 31	
	1975	1974
ASSESSMENTS LEVIED ON FEDERAL RESERVE BANKS:		
For Board expenses and additions to property	\$33,577,200	\$41,116,600
For expenditures made on behalf of the Federal Reserve Banks	34,874,959	27,052,554
Total assessments	68,452,159	68,169,154
EXPENSES:		
For the Board:		
Salaries	24,017,514	21,552,324
Retirement and insurance contributions	2,507,085	1,825,870
Travel expenses	879,186	694,699
Legal, consultant and audit fees	656,012	482,420
Contractual services	341,369	285,870
Printing and binding—net	826,737	742,874
Equipment, office space and other rentals	1,531,950	1,988,364
Telephone and telegraph	608,003	460,866
Postage and expressage	269,751	315,941
Stationery, office and other supplies	355,780	310,251
Heat, light and power	627,144	414,736
Operation of cafeteria—net	226,868	184,241
Repairs, maintenance and alterations	294,756	146,401
Books and subscriptions	96,909	85,675
System membership, Center for Latin American Monetary Studies	79,511	44,807
Miscellaneous—net	123,727	74,883
	33,442,302	29,610,222
For additions to property—net of recovery on disposals of \$6,540 in 1975 and \$13,656 in 1974	1,695,950	14,535,921
	35,138,252	44,146,143
Expenditures for printing, issue and redemption of Federal Reserve Notes, paid on behalf of the Federal Reserve Banks	34,874,959	27,052,554
Total expenses	70,013,211	71,198,697
EXCESS OF EXPENSES OVER ASSESSMENTS	\$ (1,561,052)	\$ (3,029,543)

See notes to financial statements.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year ended December 31	
	1975	1974
SOURCE OF FUNDS:		
Excess of expenses over assessments.....	\$(1,561,052)	\$(3,029,543)
Net increase in property fund.....	1,681,477	14,381,115
Increase in accounts payable and accrued expenses.....		605,897
Increase in accrued payroll.....	203,304	192,239
Increase in income taxes withheld.....	27,410	
Decrease in miscellaneous receivables and advances.....	142,665	
Decrease in stockroom and cafeteria inventories.....	11,535	
	505,339	12,149,708
APPLICATION OF FUNDS:		
Additions to property—net:		
Construction-in-progress.....	(45,824,231)	10,362,554
Computer.....		3,971,412
Building.....	45,254,651	55,206
Furniture and equipment.....	2,105,880	2,882
Land and improvements.....	145,177	(10,939)
	1,681,477	14,381,115
Decrease in retention on construction-in-progress.....	773,987	812,138
Decrease in income taxes withheld.....		142,528
Increase in miscellaneous receivables and advances.....		138,210
Increase in stockroom and cafeteria inventories.....		77,694
Decrease in accounts payable and accrued expenses.....	1,639,896	
	4,095,360	15,551,685
DECREASE IN CASH.....	\$(3,590,021)	\$(3,401,977)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 1975 AND 1974

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.

The Board is self-insured against loss of its building and furniture and equipment from fire or other casualty. Coverage for other customarily insured risks, such as workmen's compensation insurance and comprehensive general liability insurance, is carried by the Board.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

NOTES TO FINANCIAL STATEMENTS—Continued

CONSTRUCTION-IN-PROGRESS

The construction-in-progress represents the cost as of December 31, 1974, for the construction, furnishing and landscaping of the Martin Building, which first became occupied during 1974. The cost includes both building costs and costs relating to furniture, equipment and landscaping. The construction and furnishing were completed in 1975, and the final costs were allocated to the appropriate property fund accounts. The amount at December 31, 1975 represents amounts expended to that date for renovation of the Board Building.

The retention on construction-in-progress represents amounts withheld on contracts for the construction, furnishing and landscaping and is to be paid at the satisfactory completion of the contracts.

BUILDING

Included in the cost of buildings is approximately \$6,500,000 relating to the cost of the North Garage of the Martin Building. Over the next 39 years, the Board will receive approximately \$4,185,000 from the Department of the Interior for the use of parking spaces in the garage (subject to adjustment for both reduction of the number of spaces used by Interior and the final actual cost of the garage). Actual use of these spaces started in August 1974 and miscellaneous expense has been offset for the \$9,000 monthly payment received from Interior since that time.

LONG-TERM LEASES

The Board leases outside office and parking space under leases expiring from July 23, 1976 to March 31, 1978. Because the leases may be terminated with six months notice commencing in 1976, at December 31, 1975, the only fixed future rental commitment is \$311,000 for 1976. Rent expense for outside office, storage and parking space for the years ended December 31, 1975 and 1974 was approximately \$777,400 and \$990,000, respectively.

RETIREMENT PLANS

There are two contributory retirement programs for employees of the Board. About 85% 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 \$2,057,591 in 1975 and \$1,509,054 in 1974.

CONTINGENT LIABILITIES

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 law suits seek injunctive or declaratory relief against the Board rather than monetary awards.

In 1975, however, four cases were filed and two other claims were asserted against the Board which are requesting substantial monetary awards. 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 these actions are sufficiently lacking in merit as not to present any real probability of substantial liability to the Board.

Statistical Tables

1. Detailed statement of condition of all Federal Reserve Banks combined, December 31, 1975

In thousands of dollars

ASSETS		
Gold certificates on hand		1,278
Gold certificates due from U.S. Treasury		11,597,605
Total gold certificate account		11,598,883
Special Drawing Rights certificate account		500,000
F.R. notes of other F.R. Banks		1,612,745
Other cash:		
Coin	344,946	
Other currency	95	
Total other cash		345,041
Loans to member banks secured by—		
U.S. Govt. and agency obligations	162,245	
Other eligible paper	45,390	
Other paper (Sec. 10(b))	21,585	229,220
Loans to others		
Total loans		229,220
Acceptances:		
Bought outright	741,485	
Held under repurchase agreement	385,096	
Federal agency obligations:		
Bought outright	6,072,090	
Held under repurchase agreement	118,200	
U.S. Govt. securities:		
Bought outright:		
Bills	37,207,385	
Notes	43,988,539	
Bonds	5,521,608	
Total bought outright	86,717,532	
Held under repurchase agreement	1,216,700	
Total U.S. Govt. securities		87,934,232
Total loans and securities		95,480,323
Cash items in process of collection:		
Transit items	9,604,550	
Exchanges for clearing house	288,282	
Other cash items	1,301,170	
Total cash items in process of collection		11,194,002
Bank premises:		
Land		75,288
Buildings (including vaults)	158,331	
Fixed machinery and equipment	95,862	
Construction account	130,014	
Total buildings	384,207	
Less depreciation allowances	139,863	244,344
Total bank premises		319,632
Operating equipment:		
Operating equipment	14,282	
Less depreciation	920	
Total operating equipment		13,362
Other assets:		
Due from FDIC-account closed bank	1,125,000	
Denominated in foreign currencies	79,822	
Interest accrued	1,200,924	
Premium on securities	119,121	
Real estate acquired for banking-house purposes	19,485	
Suspense account	122,598	
Overdrafts	24,397	
All other ¹	287,031	
Total other assets		2,978,378
Total assets		<u>124,042,366</u>

1.—Continued

LIABILITIES

F.R. notes:		
Outstanding (issued to F.R. Banks)		81,875,175
Less: Held by issuing F.R. Banks	3,064,854	
Forwarded for redemption	41,015	3,105,869
F.R. notes, net (includes notes held by U.S. Treasury and by F.R. Banks other than issuing Bank)		
		78,769,306
Deposits:		
Member bank reserves		26,096,679
U.S. Treasury—General Account		7,286,424
Foreign		352,807
Other deposits:		
Nonmember bank—Clearing accounts	2,108	
Officers' and certified checks	20,593	
Reserves of corporations doing foreign banking or financing	186,531	
International organizations	157,438	
Secretary of Treasury special account	96,015	
All other	630,188	
Total other deposits		1,092,873
Total deposits		34,828,783
Deferred availability cash items		7,479,582
Other liabilities:		
Unearned discount		11,210
Discount on securities		1,014,098
Sundry items payable		23,126
Suspense accounts		56,660
All other		933
Total other liabilities		1,106,027
Total liabilities		122,183,698

CAPITAL ACCOUNTS

Capital paid in		929,334
Surplus		929,334
Other capital accounts ²		
Total liabilities and capital accounts		124,042,366

¹ Includes U.S. agency coupons in process of collection.

² During the year this item includes the net earnings, expenses, profit and loss items, and accrued dividends, which are closed out on Dec. 31; see Table 6, pp. 374 and 375.

NOTE.—Amounts in boldface type indicate items in the Board's weekly statement of condition of the F.R. Banks.

2. Statement of condition of each Federal Reserve Bank, December 31, 1975 and 1974

In millions of dollars

Item	Total		Boston		New York		Philadelphia		Cleveland		Richmond	
	1975	1974	1975	1974	1975	1974	1975	1974	1975	1974	1975	1974
ASSETS												
Gold certificate account.....	11,599	11,652	530	311	3,330	3,413	668	614	888	662	981	907
Special Drawing Rights certif. acct.....	500	400	24	23	124	93	31	23	43	33	45	36
F.R. notes of other F.R. Banks.....	1,611	1,343	81	75	275	233	85	82	121	91	163	96
Other cash.....	347	240	20	14	23	14	7	10	45	31	42	17
Loans:												
Secured by U.S. Govt. and agency obligations.....	161	125		5	66	9	7	23			7	48
Other.....	68	173			12	82	2					2
Acceptances:												
Bought outright.....	741	579			741	579						
Held under repurchase agreement.....	385	420			385	420						
Federal agency obligations:												
Bought outright.....	6,072	4,702	282	212	1,457	1,044	357	266	480	399	491	374
Held under repurchase agreement.....	118	511			118	511						
U.S. Govt. securities:												
Bought outright.....	86,717	80,058	4,031	3,608	20,810	17,784	5,092	4,527	6,851	6,787	7,008	6,378
Held under repurchase agreement.....	1,217	443			1,217	443						
Total loans and securities.....	95,479	87,011	4,313	3,825	24,806	20,872	5,458	4,816	7,331	7,186	7,506	6,802
Cash items in process of collection.....	11,194	9,752	386	388	1,785	1,456	345	343	558	528	2,004	1,082
Bank premises.....	319	263	89	65	20	12	51	31	25	26	22	14
Operating equipment.....	13				2		3		1			
Other assets:												
Denominated in foreign currencies.....	80	2	3		21	1	4		7		4	
All other.....	2,900	2,930	63	47	1,828	2,028	72	67	97	79	108	104
<i>Interdistrict Settlement Account.....</i>	<i>0</i>	<i></i>	<i>+184</i>	<i></i>	<i>-2,610</i>	<i></i>	<i>-460</i>	<i></i>	<i>+654</i>	<i></i>	<i>-236</i>	<i></i>
Total assets.....	124,042	113,593	5,693	4,748	29,604	28,122	6,264	5,986	9,770	8,636	10,639	9,058

LIABILITIES												
F.R. notes	78,770	72,259	3,921	3,441	19,703	17,980	4,635	4,468	6,770	6,234	7,140	6,493
Deposits:												
Member bank reserves	26,097	25,825	901	674	4,718	6,139	710	865	1,690	1,269	1,425	1,167
U.S. Treasurer—General account	7,285	3,113	388	116	2,292	1,080	544	152	597	377	407	162
Foreign	353	418	10	12	159	202	12	14	23	26	15	16
All other ²	1,090	1,275	12	23	769	814	18	29	18	41	29	52
Total deposits	34,825	30,631	1,311	825	7,938	8,235	1,284	1,060	2,328	1,713	1,876	1,397
Deferred availability cash items	7,479	7,768	340	362	1,203	1,157	193	310	413	441	1,438	985
Other liabilities and accrued dividends	1,110	1,141	51	50	282	280	68	64	97	92	81	83
Total liabilities	122,184	111,799	5,623	4,678	29,126	27,652	6,180	5,902	9,608	8,480	10,535	8,958
CAPITAL ACCOUNTS												
Capital paid in	929	897	35	35	239	235	42	42	81	78	52	50
Surplus	929	897	35	35	239	235	42	42	81	78	52	50
Other capital accounts												
Total liabilities and capital accounts	124,042	113,593	5,693	4,748	29,604	28,122	6,264	5,986	9,770	8,636	10,639	9,058
Contingent liability on acceptances purchased for foreign correspondents		981		40		249		48		87		55
F.R. NOTE STATEMENT												
F.R. notes:												
Issued to F.R. Bank by F.R. Agent and outstanding	81,877	75,116	4,071	3,552	20,252	18,545	4,735	4,555	6,982	6,435	7,399	6,729
Less held by issuing Bank, and forwarded for redemption	3,107	2,857	150	111	549	565	100	87	212	201	259	236
F.R. notes, net ³	78,770	72,259	3,921	3,441	19,703	17,980	4,635	4,468	6,770	6,234	7,140	6,493
Collateral held by F.R. Agent for notes issued to Bank:												
Gold certificate account	11,596	3,055	530	150	3,329	400	668	450	888	330	981	520
Special Drawing Rights certif. acct.	302	93	24		124	93						
Acceptances		550				550						
U.S. Govt. securities	71,510	72,555	3,575	3,425	17,050	17,600	4,150	4,200	6,210	6,200	6,505	6,300
Total collateral	83,408	76,253	4,129	3,575	20,503	18,643	4,818	4,650	7,098	6,530	7,486	6,820

For notes see end of table.

2. Statement of condition of each Federal Reserve Bank, December 31, 1975 and 1974—Continued

In millions of dollars

Item	Atlanta		Chicago		St. Louis		Minneapolis		Kansas City		Dallas		San Francisco	
	1975	1974	1975	1974	1975	1974	1975	1974	1975	1974	1975	1974	1975	1974
ASSETS														
Gold certificate account	611	343	1,768	1,946	449	518	206	309	419	556	422	572	1,327	1,501
Special Drawing Rights certif. acct.	28	22	79	70	20	15	10	7	18	15	19	14	59	49
F.R. notes of other F.R. Banks	235	192	72	78	59	48	43	27	59	50	110	92	308	279
Other cash	43	35	29	24	26	21	15	9	40	18	16	11	41	36
Loans:														
Secured by U.S. Govt. and agency obligations	20	9	46	13	1	2	10	2	4	2		12		
Other	17	10		15			32		4	1		11	1	52
Acceptances:														
Bought outright														
Held under repurchase agreement														
Federal agency obligations:														
Bought outright	317	269	915	768	231	184	133	105	248	184	310	213	851	684
Held under repurchase agreement														
U.S. Govt. securities:														
Bought outright ¹	4,528	4,574	13,063	13,074	3,304	3,130	1,894	1,785	3,544	3,130	4,433	3,629	12,159	11,652
Held under repurchase agreement														
Total loans and securities	4,882	4,862	14,024	13,870	3,536	3,316	2,069	1,892	3,800	3,317	4,743	3,865	13,011	12,388
Cash items in process of collection	921	1,389	1,461	1,291	474	420	499	425	912	807	835	636	1,014	987
Bank premises	14	14	16	16	13	14	32	34	17	17	12	12	8	8
Operating equipment					2		1				2		2	
Other assets:														
Denominated in foreign currencies	6		12	1	3		2		3		5		10	
All other	94	73	192	152	46	37	30	26	51	39	62	45	257	233
Interdistrict Settlement Account	-85		+324		+404		+302		-60		-364		+1,947	
Total assets	6,749	6,930	17,977	17,448	5,032	4,389	3,209	2,729	5,259	4,819	5,862	5,247	17,984	15,481

LIABILITIES														
F.R. notes.....	4,049	3,984	12,464	11,374	3,322	2,970	1,586	1,412	2,777	2,633	3,010	2,708	9,393	8,562
Deposits:														
Member bank reserves.....	1,578	1,727	3,745	4,196	741	829	708	682	1,141	1,202	1,666	1,745	7,074	5,330
U.S. Treasurer—General account.....	361	97	493	280	522	155	367	129	450	103	389	105	475	357
Foreign.....	20	21	40	46	9	10	6	7	11	11	15	16	33	37
All other ²	38	48	59	90	9	18	6	11	11	24	61	30	60	95
Total deposits.....	1,997	1,893	4,337	4,612	1,281	1,012	1,087	829	1,613	1,340	2,131	1,896	7,642	5,819
Deferred availability cash items.....	497	849	739	1,015	329	306	459	419	749	731	566	498	553	695
Other liabilities and accrued dividends.....	62	66	153	171	38	41	25	25	42	41	51	47	160	181
Total liabilities.....	6,605	6,792	17,693	17,172	4,970	4,329	3,157	2,685	5,181	4,745	5,758	5,149	17,748	15,257
CAPITAL ACCOUNTS														
Capital paid in.....	72	69	142	138	31	30	26	22	39	37	52	49	118	112
Surplus.....	72	69	142	138	31	30	26	22	39	37	52	49	118	112
Other capital accounts.....														
Total liabilities and capital accounts.....	6,749	6,930	17,977	17,448	5,032	4,389	3,209	2,729	5,259	4,819	5,862	5,247	17,984	15,481
Contingent liability on acceptances purchased for foreign correspondents.....		72		154		33		23		40		54		126
F.R. NOTE STATEMENT														
F.R. notes:														
Issued to F.R. Bank by F.R. Agent and outstanding.....	4,511	4,273	12,765	11,721	3,486	3,117	1,656	1,461	2,918	2,800	3,141	2,867	9,961	9,061
Less held by issuing Bank, and forwarded for redemption.....	462	289	301	347	164	147	70	49	141	167	131	159	568	499
F.R. notes, net ³	4,049	3,984	12,464	11,374	3,322	2,970	1,586	1,412	2,777	2,633	3,010	2,708	9,393	8,562
Collateral held by F.R. Agent for notes issued to Bank:														
Gold certificate account.....	611	200	1,768	700	449	300	205		418		422	5	1,327	
Special Drawing Rights certif. acct.....	28				20		10		18		19		59	
Acceptances.....														
U.S. Govt. securities.....	4,000	4,150	11,400	11,200	3,070	2,860	1,510	1,530	2,600	2,900	2,740	2,890	8,700	9,300
Total collateral.....	4,639	4,350	13,168	11,900	3,539	3,160	1,725	1,530	3,036	2,900	3,181	2,895	10,086	9,300

¹ Includes securities loaned—fully guaranteed by U.S. Govt. securities pledged with F.R. Banks—and *excludes* (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

² Beginning July 1973, this item 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.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign-agency and branch deposits at F.R. Banks that are associated with marginal reserves are no longer reported. However, two amounts are reported: (1) deposits voluntarily held as reserves by agencies and branches of foreign banks operating in the United States, and (2) Euro-dollar liabilities.

³ Includes F.R. notes held by U.S. Treasury and by F.R. Banks other than the issuing Bank.

3. Federal Reserve Bank holdings of U.S. Government and Federal agency securities, December 31, 1973-75

In millions of dollars

Type of issue and date	Rate of interest (percent)	December 31			Increase or decrease (-) during—	
		1975	1974	1973	1975	1974
Treasury bonds:						
1974—Feb.	4 1/8			210		-210
May	4 1/4			337		-337
Nov.	3 7/8			68		-68
1975-85	4 1/4	156	156	140		16
1978-83	3 1/4	87	87	78		9
1980—Feb.	4	261	151	150	110	1
Nov.	3 1/2	74	74	74		
1981—Aug.	7	123	121	121	2	
1982—Feb.	6 3/8	358	355	348	3	7
1984—Aug.	6 3/8	334	331	329	3	2
1985—May	3 3/4	47	47	47		
1986—Nov.	6 1/8	310	310	301		9
1987-92	4 1/4	509	505	504	4	1
1988-93	4	24	24	24		
{ 7 1/2	264	202	125		62	77
1989-94	4 1/8	77	77	77		
1990—Feb.	3 1/2	84	84	84		
May	8 1/4	155			155	
1993—Feb.	6 3/4	70	49	23	21	26
1993-98	7	148	97	75	51	22
1994-99	8 1/2	830	580		250	580
1995—Feb.	3	2	2	2		
1995-2000	7 1/8	286			286	
{ 8 3/8	707				707	
1998—Nov.	3 1/2	31	31	31		
2000-05	8 1/4	585			585	
Total		5,522	3,283	3,149	2,239	134
Treasury notes:						
Feb. 15, 1974—C	7 3/4			325		-325
May 15, 1974—D	7 1/4			999		-999
Aug. 15, 1974—B	5 3/8			5,305		-5,305
Sept. 30, 1974—E	6			94		-94
Nov. 15, 1974—A	5 3/4			1,891		-1,891
Dec. 31, 1974—F	5 7/8			34		-34
Feb. 15, 1975—A	5 1/4		1,129	1,095	-1,129	34
{ 5 7/8	114		114	106	-114	8
May 15, 1975—B	6		3,810	3,780	-3,810	30
{ 5 7/8	127		127	119	-127	8
Aug. 15, 1975—C	5 7/8		2,518	2,388	-2,518	130
Sept. 30, 1975—G	8 3/8		23	23	-23	23
Nov. 15, 1975—D	7		474	464	-474	10
Dec. 31, 1975—H	7		202	193	-202	9
Feb. 15, 1976—A	6 1/4		2,507	2,507		
{ 5 7/8	1,232		1,170	934	62	236
Mar. 31, 1976—H	8		97	345	92	-340
May 15, 1976—B	6 1/2		360	353	7	-109
{ 5 3/4	496		472		24	472
May 31, 1976—M	6		80		80	
June 30, 1976—I	8 3/4		692	680	12	680
Aug. 15, 1976—C	7 1/2		748	720	28	
{ 6 1/2	1,649		1,630	1,605	19	25
Aug. 31, 1976—L	5 7/8		43		43	
Sept. 30, 1976—J	8 1/4		320	259	61	259
Oct. 31, 1976—O	6 1/2		50		50	
Nov. 15, 1976—D	6 1/4		100	87	13	38
Nov. 30, 1976—N	7 1/8		126		126	
Dec. 31, 1976—K	7 1/4		231	77	154	77
Feb. 15, 1977—A	8	2,462	2,453	2,451	9	2
Feb. 28, 1977—F	6	112			112	
Mar. 31, 1977—G	6 1/2	422			422	
Apr. 30, 1977—H	7 3/8	48			48	
May 15, 1977—C	6 7/8	440	417		23	417
{ 9	2,973	2,950			23	2,950
May 31, 1977—I	6 3/4	92			92	
June 30, 1977—J	6 1/2	251			251	
July 31, 1977—K	7 1/2	33			33	
Aug. 15, 1977—B	7 3/4	831	807	805	24	2
Aug. 31, 1977—L	8 1/4	88			88	
Sept. 30, 1977—M	8 3/8	38			38	
Oct. 31, 1977—N	7 1/2	56			56	
Nov. 15, 1977—E	7 3/4	1,218	1,122		96	1,122
Dec. 31, 1977—P	7 1/4	203			203	

3.—Continued

Type of issue and date	Rate of interest (per cent)	December 31			Increase or decrease (-) during—	
		1975	1974	1973	1975	1974
Treasury notes—Cont.:						
Feb. 15, 1978—A	6¼	2,606	2,575	2,573	31	2
Feb. 28, 1978—G	8	20			20	
May 15, 1978—D	7½	850			850	
	7½	1,499			1,499	
Aug. 15, 1978—C	8¾	619	615		4	615
	7½	2,516			2,516	
Nov. 15, 1978—B	6	2,447	2,430	2,440	17	-10
Dec. 31, 1978—H	8¼	51			51	
May 15, 1979—D	7½	465	30		435	30
June 30, 1979—E	7¾	42			42	
Aug. 15, 1979—A	6¼	590		512		78
Sept. 30, 1979—F	8½	125			125	
Nov. 15, 1979—B	6½	872	871	844	1	27
	7	341	302	220	39	82
May 15, 1980—A	6¾	5,244	5,200	5,155	44	45
Aug. 15, 1980—B	7	2,385	2,268		117	2,268
Feb. 15, 1981—A	7	304	243		61	243
	7¾	646			646	
Nov. 15, 1981—B	7¾	1,464	780		684	780
May 15, 1982—A	8	1,370			1,370	
Aug. 15, 1982—B	8¾	1,013			1,013	
Nov. 15, 1982—C	7¾	524			524	
Total		43,989	40,009	38,412	3,980	1,597
Treasury bills:						
Tax anticipation				344		-344
Fed. Financing Bank			259		-259	259
Other, due—						
Within 3 mos.		20,495	23,259	24,255	-2,764	-996
3-6 mos.		12,342	8,752	8,396	3,590	356
After 6 mos.		4,371	4,495	3,903	-124	592
Total		37,207	36,765	36,897	442	-132
Repurchase agreements		1,217	443	58	773	385
U.S. Govt. securities—Total		87,934	80,501	78,516	7,434	1,985
Maturing—						
Within 90 days		25,450	25,204	24,847	246	357
91 days to 1 year		21,704	20,401	21,369	1,303	-968
1-5 years		30,273	23,120	23,035	7,153	85
5-10 years		6,426	9,612	7,503	-3,186	2,109
Over 10 years		4,082	2,164	1,762	1,918	402
Federal agency obligations:						
Held outright:						
Banks for coops.		60	87		-27	87
Export-Import Bank		135	155	108	-20	47
Fed. home loan banks		1,603	1,163	263	440	900
Fed. intermediate credit banks		317	210	71	107	139
Federal land banks		736	532	246	204	286
Farmers Home Admin.		285	225	134	60	93
Fed. Natl. Mort. Assn.		2,702	2,143	1,011	559	1,132
Govt. Natl. Mort. Assn.—PC's		87	71	58	16	13
U.S. Postal Service		37	25	25	12	
Wash. Metro. Area Transit Authority		98	82	21	16	61
General Services Admin.		12	9	1	3	8
Total		6,072	4,702	1,938	1,370	2,764
Held under Rp's.		118	511	42	-393	469

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

4. Federal Reserve Bank holdings of special short-term Treasury certificates purchased directly from the United States, 1970-75

In millions of dollars

Date	Amount	Date	Amount	Date	Amount	Date	Amount
1970	none	1972		1973		1975	
1971		Sept. 12	38	Sept. 15	319	Mar. 14	820
June 8	79			16 ¹	319	15	820
9	582	1973				16	820
10	610	Aug. 15	351	1974		17	832
11	593	Sept. 7	73	Nov. 6	131	Aug. 5	656
12	593	8	73			6	965
13 ¹	593	9 ¹	73	1975		7	474
14	243	10	42	Mar. 11	626	11	204
15	588	11	485	12	1,043	12	543
16	349	12	169	13	315	13	399
		14	319			15	481

¹ Sunday or holiday.

NOTE.—Under authority of Section 14(b) of the Federal Reserve Act. Throughout the period shown the interest rate was $\frac{1}{4}$ 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 dates not shown.

5. Open market transactions of the Federal Reserve System during 1975

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	341	945	600	14			305		
February	357	460	900			2,437	129		-2,836
March	760	156	487	1,579		-1,494	361		194
April	2,119	318	506	148			485		
May	903	354	407	50		-3,131			6,635
June	421	1,61	612	20		691	488		-529
July		1,505	800						
August	312	282	400	2,002		-2,144	150		1,299
September	2,118		200			278	562		-278
October	1,263	766	400			48			-48
November	983	652	919	43		-265	267		-135
December	1,984		200	31		28	118		-28
Total	11,562	5,599	6,431	3,886		-3,553	2,863		4,275

5.—Continued

Month	Outright transactions (cont.)						Total outright			Matched sale-purchase transactions (U.S. Govt. securities)	
	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.....	61			26			746	945	600	9,237	10,367
February.....	113		249	74		150	673	460	900	7,167	6,634
March.....	450			212			3,362	156	1,788	15,933	16,763
April.....	274			164			3,189	318	506	12,375	12,216
May.....			-3,801			298	953	354	407	2,996	3,044
June.....	180			109			1,217	161	450	12,914	13,026
July.....								1,505	800	15,532	15,139
August.....	64		-1,444	47		300	2,574	282	2,389	14,234	13,730
September....	137			124			2,940		200	19,931	19,835
October.....							1,263	766	400	15,886	16,113
November....	155		300	244		100	1,693	652	919	14,442	15,207
December....	78			71			2,281		200	10,559	10,058
Total.....	1,510		-4,697	1,070		848	20,892	5,599	9,559	151,205	152,132

	Repurchase agreements (U.S. Govt. securities)		Net change in U.S. Govt. securities	Federal agency obligations			Bankers acceptances, net		Net change ²
	Gross purchases	Gross sales		Outright		Repurchase agreements, net	Out-right	Repurchase agreements	
				Gross purchases	Sales or redemptions				
January.....	9,260	8,748	844		14	-409	103	-136	387
February.....	11,267	10,305	-258	376		81	-246	-12	39
March.....	5,011	6,928	332	210		2	-347	-5	-323
April.....	12,774	8,551	6,428			2	883	24	496
May.....	19,489	21,952	-2,224			97	-567	55	-375
June.....	15,219	16,810	-873			6	-255	-62	-121
July.....	5,977	6,146	-2,866			2	-61	3	-2,926
August.....	8,146	6,881	663	353		40	90	-1	156
September....	16,664	14,857	4,451	394		1	203	14	94
October.....	13,699	13,838	186	284		1	-124	49	50
November....	14,342	17,275	-2,047			1	-169	-21	-300
December....	8,464	7,247	2,797				118	15	385
Total.....	140,311	139,538	7,434	1,616	246	-392	163	-35	8,539

¹ Includes special certificates acquired when the Treasury borrows directly from the Federal Reserve, as follows: Mar., \$1,560 million, and Aug., \$1,989 million.

² Net change in U.S. Govt. securities, Federal agency obligations, and bankers acceptances.

NOTE.—Sales, redemptions, and negative figures reduce System holdings; all other figures increase them. Details may not add to totals because of rounding.

6. Earnings and expenses of Federal Reserve Banks during 1975

In dollars

Item	Total	Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco
CURRENT EARNINGS													
Loans.....	12,532,225	527,088	4,121,770	964,772	152,261	1,240,861	1,276,370	1,588,087	326,009	216,700	365,909	518,909	1,233,489
Acceptances.....	55,905,145		55,905,145										
U.S. Govt. securities.....	6,081,066,224	275,843,941	1,496,582,029	345,741,916	483,292,051	482,490,979	321,711,930	927,614,026	231,240,188	132,325,834	242,934,028	295,895,909	845,393,393
Foreign currencies.....	5,912,720	213,246	1,876,987	256,985	475,663	300,712	415,475	841,848	185,887	131,238	230,538	300,699	683,442
All other.....	102,520,470	30,935	101,584,284	12,533	71,265	38,531	79,441	255,429	43,985	215,340	69,893	38,096	80,737
Total.....	6,257,936,784	276,615,210	1,660,070,216	346,976,206	483,991,240	484,071,083	323,483,216	930,299,390	231,796,069	132,889,112	243,600,368	296,753,613	847,391,061
CURRENT EXPENSES													
Salaries:													
Officers.....	21,276,072	1,411,359	4,733,349	1,329,028	1,094,120	1,957,604	1,847,123	1,933,515	1,411,810	1,015,429	1,412,166	1,220,747	1,909,822
Employees.....	271,371,174	17,383,232	66,395,975	13,877,434	15,641,402	21,491,190	24,948,491	35,947,639	15,725,262	10,233,186	15,622,483	12,527,576	21,577,304
Retirement and other benefits.....	52,960,760	3,620,710	12,568,887	2,770,707	3,080,119	4,198,620	4,769,985	6,687,672	3,110,753	1,922,070	3,247,917	2,415,747	4,567,573
Fees—Directors and others.....	4,566,528	247,376	1,389,523	401,273	234,381	272,729	219,823	321,677	149,761	168,768	159,848	151,092	850,277
Travel.....	5,719,899	415,129	990,369	186,041	420,374	439,610	603,351	641,594	324,683	334,359	364,725	346,496	653,168
Postage and expressage.....	70,360,946	3,828,639	10,081,331	3,079,339	6,334,523	7,412,973	8,411,429	8,847,353	5,152,153	2,702,291	4,137,711	3,520,371	6,852,833
Telephone and telegraph.....	8,075,149	399,857	1,782,492	337,000	514,968	612,353	866,073	986,944	419,210	355,176	650,608	495,671	654,797
Printing and supplies.....	24,513,641	1,400,148	4,701,400	1,227,660	1,252,522	2,312,068	2,650,050	3,572,671	1,628,430	911,891	1,728,754	1,066,264	2,061,783
Insurance.....	1,147,530	90,075	212,398	37,149	79,858	101,934	115,988	121,947	69,225	59,217	43,368	50,133	165,538
Taxes on real estate.....	12,539,006	2,580,945	2,186,322	469,690	717,326	389,663	565,755	1,524,819	473,115	1,795,632	581,860	447,121	806,758
Depreciation—Bank premises.....	7,765,156	126,968	1,093,003	76,596	1,497,264	544,087	429,520	421,552	570,990	1,565,980	883,730	277,563	377,903
Light, heat, power, and water.....	7,616,920	511,622	1,450,213	479,445	913,780	590,607	622,417	885,619	532,879	1,433,866	456,591	384,843	275,038
Maintenance and repairs—													
Bank premises.....	3,639,296	79,468	665,748	74,973	260,689	250,243	339,804	307,203	578,846	303,525	157,543	101,576	519,678
Rent.....	7,509,763	1,157,786	3,595,638	517,482	164,889	352,088	634,131	720,002	160,293	26,992	21,390	9,775	149,297
Furniture and equipment:													
Purchases ²	10,117,082	778,300	2,565,496	410,044	511,742	559,372	788,329	1,153,997	432,163	397,449	860,262	520,087	1,139,841
Rentals.....	41,908,904	3,233,796	5,866,857	2,856,165	3,014,437	3,528,333	3,836,671	5,449,702	2,662,030	1,552,289	3,518,541	2,897,248	3,492,835
All other.....	10,980,243	985,579	2,770,359	639,378	686,935	460,996	462,925	1,758,415	315,143	552,024	460,104	1,032,373	856,012
Inter-office expenses.....	32	8,988	-2,016,699	164,520	300,233	-417,686	277,212	561,561	135,412	86,751	160,873	206,531	442,336
Subtotal.....	562,079,508	38,349,980	121,044,068	28,933,924	36,719,562	45,056,784	52,389,074	71,843,882	33,852,858	24,396,895	34,468,474	27,671,214	47,352,793
F.R. currency.....	37,130,081	2,019,391	7,203,399	2,871,307	2,576,401	4,230,047	4,025,471	4,112,162	2,127,799	714,642	1,016,334	1,629,039	4,604,089
Assessments for Board of Governors: ³													
Operating expenses.....	32,896,500												
Construction expenses.....	680,700	1,310,700	8,731,100	1,565,300	2,927,600	1,870,000	2,583,200	5,168,100	1,128,600	818,300	1,410,000	1,846,600	4,217,700
Total.....	632,786,792	41,680,072	136,978,567	33,370,531	42,223,563	51,156,831	58,997,745	81,124,144	37,109,257	25,929,837	36,894,808	31,146,855	56,174,582
Less reimbursement for certain fiscal agency and other expenses.....	47,720,877	2,772,611	11,317,761	2,043,657	3,559,950	3,219,593	4,308,434	6,919,202	3,025,823	1,317,152	2,977,071	1,569,640	4,689,983
Net expenses.....	585,065,915	38,907,461	125,660,806	31,326,874	38,663,613	47,937,238	54,689,311	74,204,942	34,083,434	24,612,685	33,917,737	29,577,215	51,484,599

PROFIT AND LOSS

Current net earnings.....	5,672,870,869	237,707,749	1,534,409,409	315,649,333	445,327,626	436,133,845	268,793,906	856,094,448	197,712,635	108,276,427	209,682,631	267,176,397	795,906,463
Additions to current net earnings:													
Profits on sales of U.S. Govt. securities.....	36,967,506	1,664,109	8,824,743	2,066,573	3,012,563	2,928,888	2,022,793	5,828,548	1,430,953	817,367	1,470,396	1,734,021	5,166,552
All other.....	4,126,543	159,787	1,024,712	125,401	138,099	162,497	218,183	316,728	109,811	145,618	124,261	182,844	1,418,602
Total additions....	41,094,049	1,823,896	9,849,456	2,191,974	3,150,662	3,091,385	2,240,976	6,145,276	1,540,764	962,984	1,594,657	1,916,865	6,585,154
Deductions from current net earnings:													
Losses on foreign exchange transactions..	241,796,567	9,430,101	63,350,936	11,364,481	21,035,480	13,298,861	18,376,608	37,236,810	8,221,114	5,803,139	10,155,494	13,298,860	30,224,683
All other.....	1,667,099	30,642	716,231	278,223	61,300	17,686	32,457	32,804	33,709	77,422	21,655	79,006	285,964
Total deductions..	243,463,664	9,460,743	64,067,166	11,642,704	21,096,780	13,316,547	18,409,065	37,269,614	8,254,823	5,880,561	10,177,149	13,377,866	30,510,647
Net deduction from (-) current net earnings.....	-202,369,615	-7,636,847	-54,217,710	-9,450,730	-17,946,118	-10,225,162	-16,168,089	-31,124,338	-6,714,059	-4,917,576	-8,582,492	-11,461,001	-23,925,493
Net earnings before payments to U.S. Treasury.....	5,470,501,254	230,070,902	1,480,191,699	306,198,603	427,381,509	425,908,683	252,625,817	824,970,110	190,998,576	103,358,850	201,100,139	255,715,396	771,980,970
Dividends paid.....	54,609,555	2,115,259	13,918,891	2,516,504	4,790,394	3,061,297	4,243,371	8,452,775	1,845,108	1,386,681	2,317,017	3,028,166	6,934,092
Payments to U.S. Treasury (interest on F.R. notes).....	5,382,064,098	227,579,544	1,461,619,158	303,194,398	419,877,314	420,755,286	245,102,596	812,186,635	187,947,817	97,609,920	196,974,672	249,948,730	759,268,028
Transferred to surplus.....	33,827,600	376,100	4,653,650	487,700	2,713,800	2,092,100	3,279,850	4,330,700	1,205,650	4,362,250	1,808,450	2,738,500	5,778,850
Surplus, January 1.....	895,506,550	35,050,250	234,651,900	41,927,850	77,921,300	49,692,800	68,490,850	137,523,100	30,031,600	21,730,750	37,403,050	49,159,250	111,923,850
Surplus, December 31.....	929,334,150	35,426,350	239,305,550	42,415,550	80,635,100	51,784,900	71,770,700	141,853,800	31,237,250	26,093,000	39,211,500	51,897,750	117,702,700

¹ Includes earnings on note due from FDIC account Franklin National Bank. Earnings from this source amounted to \$29,026,093 in 1974 and \$99,663,236 in 1975.

² Includes depreciation and maintenance and repairs on furniture and equipment.

³ See pp. 359-61 for additional details.

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

7. Earnings and expenses of Federal Reserve Banks, 1914-75

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					
1919.....	102,380,583	19,339,633	78,367,504	5,011,832	2,703,894				70,651,778
1920.....	181,296,711	28,258,030	149,294,774	5,654,018	60,724,742				82,916,014
1921.....	122,865,866	34,463,845	82,087,225	6,119,673	59,974,466				15,993,086
1922.....	50,498,699	29,559,049	16,497,736	6,307,035	10,850,605				-659,904
1923.....	50,708,566	29,764,173	12,711,286	6,552,717	3,613,056				2,545,513
1924.....	38,340,449	28,431,126	3,718,180	6,682,496	113,646				-3,077,962
1925.....	41,800,706	27,528,163	9,449,066	6,915,958	59,300				2,473,808
1926.....	47,599,595	27,350,182	16,611,745	7,329,169	818,150				8,464,426
1927.....	43,024,484	27,518,443	13,048,249	7,754,539	249,591				5,044,119
1928.....	64,052,860	26,904,810	32,122,021	8,458,463	2,584,659				21,078,899
1929.....	79,955,496	29,691,113	36,402,741	9,583,911	4,283,231				22,535,597
1930.....	36,424,044	28,342,726	7,988,182	10,268,598	17,308				-2,297,724
1931.....	29,701,279	27,040,664	2,972,066	10,029,760					-7,057,694
1932.....	50,018,817	26,291,381	22,314,244	9,282,244	2,011,418				11,020,582
1933.....	49,487,318	29,222,837	7,957,407	8,874,262					-916,855
1934.....	48,902,813	29,241,396	15,231,409	8,781,661					6,510,071
1935.....	42,751,959	31,577,443	9,437,758	8,504,974		297,667			607,422
1936.....	37,900,639	29,874,023	8,512,433	7,829,581		227,448			352,524
1937.....	41,233,135	28,800,614	10,801,247	7,940,966		176,625			2,616,352
1938.....	36,261,428	28,911,600	9,581,954	8,019,137		119,524			1,862,433
1939.....	38,500,665	28,646,855	12,243,365	8,110,462		24,579			-425,653
1940.....	43,537,805	29,165,477	25,860,025	8,214,971		82,152			17,617,358
1941.....	41,380,095	32,963,150	9,137,581	8,429,936		141,465			570,513
1942.....	52,662,704	38,624,044	12,470,451	8,669,076		197,672			3,554,101
1943.....	69,305,715	43,545,564	49,528,433	8,911,342		244,726			40,237,362
1944.....	104,391,829	49,175,921	58,437,788	9,500,126		326,717			135,003
1945.....	142,209,546	48,717,271	92,662,268	10,182,851		247,659			201,150
1946.....	150,385,033	57,235,107	92,523,935	10,962,160		67,054			262,133
1947.....	158,655,566	65,392,975	95,235,592	11,523,047		35,605			27,708
1948.....	304,160,818	72,710,188	197,132,683	11,919,809			75,223,818		86,772
1949.....	316,536,930	77,477,676	226,936,980	12,329,373			166,690,356		18,522,518
							193,145,837		21,461,770

1950	275,838,994	80,571,771	231,561,340	13,082,991			196,628,858		21,849,490
1951	394,656,072	95,469,086	297,059,097	13,864,750			254,873,588		28,320,759
1952	456,060,260	104,694,091	352,950,157	14,681,788			291,934,634		46,333,735
1953	513,037,237	113,515,020	398,463,224	15,558,377			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	1,972,176,782	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
1974	6,280,090,965	547,541,474	5,654,062,254	52,579,643			5,549,999,411		51,483,200
1975	6,257,936,784	585,065,915	5,470,501,254	54,609,555			5,382,064,098		33,827,600
Total 1914-75	54,509,216,848	7,047,930,494	47,227,710,249	1,054,237,880	149,138,300	2,188,893	44,964,142,483	-3,657	1,058,006,349
Aggregate for each F.R. Bank, 1914-75:									
Boston	2,738,633,846	470,970,360	2,259,867,371	55,588,940			2,151,229,608		45,521,175
New York	14,081,394,184	1,521,643,974	12,502,204,665	306,024,074			11,851,676,501		276,562,121
Philadelphia	2,984,054,771	391,333,606	2,584,309,154	67,521,434			2,453,469,980		56,745,772
Cleveland	4,323,571,534	553,473,886	3,748,791,511	98,668,775			3,551,338,372		93,868,893
Richmond	3,847,643,838	529,406,392	3,308,017,468	50,593,910			3,193,457,680		57,664,708
Atlanta	2,909,177,314	519,709,240	2,367,392,818	57,155,917			2,224,164,343		77,037,240
Chicago	8,743,018,079	961,203,789	7,740,730,800	144,898,806			7,413,173,189		157,182,554
St. Louis	2,070,090,249	395,846,461	1,665,857,695	36,077,633			1,590,686,605		36,356,878
Minneapolis	1,164,594,731	264,370,134	895,632,249	24,673,463			835,665,190		29,970,213
Kansas City	2,203,525,680	404,242,663	1,790,581,301	41,944,533			1,698,290,680		43,351,450
Dallas	2,346,164,989	351,852,094	1,980,033,608	52,190,171			1,870,950,739		56,175,228
San Francisco	7,097,347,633	683,877,895	6,384,291,609	118,900,224			6,130,039,596		127,570,117
Total	54,509,216,848	7,047,930,494	47,227,710,249	1,054,237,880	149,138,300	2,188,893	44,964,142,483	-3,657	1,058,006,349

¹ Current earnings less current expenses, plus or minus adjustment for profit and loss items.

² The \$1,058,006,349 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 \$929,334,150 on Dec. 31, 1975.

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

8. Bank premises of Federal Reserve Banks and branches, December 31, 1975

In dollars

F.R. Bank or branch	Cost				Net book value
	Land	Buildings (including vaults) ¹	Fixed ma- chinery and equipment	Total	
Boston	24,154,865	70,312,961	3,136,899	97,604,725	88,834,516
Annex	27,840	89,202	44,538	161,580	158,461
New York	13,431,048	18,272,589	9,280,235	40,983,872	17,252,748
Annex	592,679	1,491,116	716,472	2,800,267	477,863
Buffalo	673,076	2,579,814	1,592,130	4,845,020	2,376,910
Philadelphia	3,254,353	52,649,816	2,154,452	58,058,621	51,000,859
Cleveland	1,295,490	6,626,740	3,572,665	11,494,895	1,044,656
Cincinnati	1,479,874	13,537,723	7,521,727	22,539,324	19,471,546
Pittsburgh	1,848,152	4,766,277	2,927,289	9,551,718	4,818,973
Richmond	2,342,774	15,221,081	2,506,471	20,070,326	14,013,109
Annex 1	146,875	256,000	2,313	405,188	146,875
Annex 2	522,733	3,455,645	3,504,227	7,482,605	5,653,322
Baltimore	801,779	2,009,381	1,200,445	4,011,605	1,652,496
Charlotte	347,071	1,069,026	625,121	2,041,218	991,215
Atlanta	1,304,755	5,804,778	3,558,581	10,668,114	5,655,864
Birmingham	410,775	2,000,619	1,019,618	3,431,012	1,616,124
Jacksonville	164,004	1,706,794	778,871	2,649,669	1,101,719
Annex	107,925	76,236	15,843	200,004	166,499
Nashville	592,342	1,474,678	1,098,924	3,165,944	1,603,777
New Orleans	1,557,663	2,754,271	1,448,181	5,760,115	3,844,373
Chicago	6,275,490	17,855,810	10,823,167	34,954,467	12,920,793
Annex	50,000	173,197	76,134	299,331	267,064
Detroit	1,147,734	3,110,776	1,725,637	5,984,147	2,463,321
St. Louis	1,675,780	3,243,079	2,941,024	7,859,883	1,218,179
Little Rock	800,104	2,037,868	992,471	3,830,443	2,920,996
Louisville	700,075	2,859,819	1,127,084	4,686,978	2,603,557
Memphis	1,135,263	4,216,382	2,105,963	7,457,968	6,408,263
Minneapolis	1,394,384	23,555,629	10,928,091	35,878,104	32,359,242
Helena	15,709	126,401	62,977	205,087	39,672
Kansas City	1,340,561	9,102,125	3,580,365	14,023,051	6,335,486
Denver	2,997,746	3,203,270	2,307,214	8,508,230	6,511,188
Oklahoma City	647,686	1,653,138	853,051	3,153,875	1,768,714
Omaha	1,030,226	1,576,662	781,171	3,388,059	1,985,606
Dallas	3,723,160	4,929,227	3,570,803	12,223,190	6,376,305
El Paso	262,477	787,728	393,301	1,443,506	915,213
Houston	1,959,770	1,410,646	714,187	4,084,603	3,051,855
San Antonio	448,596	1,400,391	570,846	2,419,833	1,417,960
San Francisco	684,340	4,051,398	1,925,551	6,661,289	797,587
Annex	247,201	124,000	30,000	401,201	329,041
Los Angeles	1,022,696	4,103,844	1,608,576	6,735,116	2,444,772
Portland	207,380	2,180,166	649,432	3,036,978	1,578,666
Salt Lake City	480,222	1,972,068	707,575	3,159,865	1,811,661
Seattle	274,772	1,890,966	1,058,744	3,224,482	1,225,364
Total	83,577,805	301,719,337	96,248,366	481,545,508	319,632,410

OTHER REAL ESTATE ACQUIRED FOR BANKING-HOUSE PURPOSES

New York	485,894	.....	.....	485,894	485,894
Cleveland	395,875	.....	.....	395,875	395,875
Richmond	326,403	.....	.....	326,403	326,403
Charlotte	1,625,312	.....	.....	1,625,312	1,625,312
Atlanta	832,727	.....	.....	832,727	832,727
Helena	131,739	.....	.....	131,739	131,739
Kansas City	800	.....	.....	800	800
San Francisco	15,686,467	.....	.....	15,686,467	15,686,467
Total	19,485,217	.....	.....	19,485,217	19,485,217

¹ Includes expenditures for construction at some offices pending allocation to appropriate accounts.

9. Volume of operations in principal departments of Federal Reserve Banks, 1972-75

Operation	1975	1974	1973	1972
Thousands of pieces handled ¹				
Loans.....	6	35	34	6
Currency received and counted.....	7,665,553	† 7,303,349	† 6,869,058	† 6,516,251
Currency verified and destroyed.....	2,624,571	2,712,718	2,613,765	2,246,740
Coin received and counted.....	15,412,192	15,089,449	15,877,724	14,716,546
Checks handled:				
U.S. Govt. checks.....	843,752	723,187	649,424	617,408
Postal money orders.....	175,893	169,109	168,116	177,257
All other ²	11,410,267	10,820,006	9,976,962	† 8,451,176
Collection items handled:				
U.S. Govt. coupons paid.....	9,336	9,867	10,443	11,911
All other.....	16,183	28,002	25,764	25,720
Issues, redemptions, and exchanges of U.S. Govt. securities.....	276,758	283,313	† 278,053	258,947
Transfers of funds.....	17,487	14,513	11,633	9,494
Food stamps redeemed.....	2,492,535	2,512,927	2,038,092	1,849,647
Amounts handled (thousands of dollars)				
Loans.....	39,822,067	361,231,396	245,074,209	61,620,130
Currency received and counted.....	66,065,061	61,942,629	56,837,822	51,535,480
Currency verified and destroyed.....	14,278,908	14,800,429	14,460,303	12,068,786
Coin received and counted.....	2,119,810	2,005,143	2,462,923	1,755,727
Checks handled:				
U.S. Govt. checks.....	349,956,753	318,983,924	263,439,104	235,163,523
Postal money orders.....	8,523,510	5,686,672	4,814,561	4,718,577
All other ²	4,256,923,795	4,104,274,900	3,845,234,479	3,317,873,664
Collection items handled:				
U.S. Govt. coupons paid.....	6,174,804	6,336,902	6,322,475	5,825,599
All other.....	26,972,687	28,795,114	23,013,309	24,770,140
Issues, redemptions, and exchanges of U.S. Govt. securities.....	4,575,364,875	3,085,911,133	2,617,455,702	2,052,735,038
Transfers of funds.....	31,392,864,917	30,361,777,939	23,479,745,788	17,916,041,090
Food stamps redeemed.....	7,939,817	5,679,074	4,030,228	3,525,383

¹ Revised.

² Packaged items handled as a single item are counted as one piece.

³ Exclusive of checks drawn on the F.R. Banks.

10. Principal operations of Federal Reserve Banks, including total expenses, average number of employees, and ratio of total expense for each operation to total expenses, 1972-75

Expenses and number of employees in thousands; ratios in per cent

Operation	1975	1974	1973	1972
Check clearing operations: ¹				
Total expense.....	\$130,024	\$124,962	\$106,944	\$79,304
Ratio to total expenses.....	20.5	21.2	20.3	17.9
Average number of employees.....	7.1	7.5	6.8	5.5
Currency function:				
Total expense.....	\$99,306	\$88,486	\$87,039	\$77,923
Ratio to total expenses.....	15.7	15.0	16.5	17.6
Average number of employees.....	2.4	2.6	2.5	2.3
Fiscal agency operations:				
Total expense.....	\$45,307	\$41,342	\$33,144	\$28,693
Ratio to total expenses.....	7.2	7.0	6.3	6.5
Average number of employees.....	2.4	2.3	2.2	2.0
Bank supervision:				
Total expense.....	\$19,936	\$17,302	\$15,834	\$14,423
Ratio to total expenses.....	3.1	2.9	3.0	3.3
Average number of employees.....	1.0	1.0	.9	.9
Other operations: ²				
Total expense.....	\$27,623	\$24,946	\$22,109	\$20,766
Ratio to total expenses.....	4.4	4.2	4.2	4.7
Average number of employees.....	1.5	1.4	1.4	1.3
General administration and support:				
Total expense.....	\$310,591	\$293,250	\$261,616	\$221,308
Ratio to total expenses.....	49.1	49.7	49.7	50.0
Average number of employees.....	11.3	11.1	10.3	9.8
Accounting.....	\$21,702	\$20,306	\$16,727	\$14,636
Auditing.....	7,289	6,637	5,878	5,465
Bank administration.....	33,226	28,717	26,017	22,923
Board assessment.....	33,577	41,117	44,412	35,235
Data processing ³	34,652	30,567	24,171	18,822
Occupancy.....	58,391	52,532	46,180	37,645
Personnel.....	26,449	24,384	20,850	17,738
Protection.....	22,255	20,728	18,604	16,889
Other.....	73,050	68,262	58,777	51,955
Total expenses.....	\$632,787	\$590,288	\$526,686	\$442,417
Less reimbursements.....	47,721	42,747	31,569	27,811
Net expenses.....	\$585,066	\$547,541	\$495,117	\$414,606

¹ Includes automated clearinghouse and noncash collections.

² Includes mainly economic research and statistics, foreign operations, and lending and credit.

³ Does not include that part of data processing distributed to other areas.

11. Number and salaries of officers and employees of Federal Reserve Banks, December 31, 1975

Federal Reserve Bank (including branches)	President	Other officers		Employees			Total	
	Annual salary (dollars)	Number	Annual salaries (dollars)	Number		Annual salaries ¹ (dollars)	Number	Annual salaries (dollars)
				Full-time	Part-time			
Boston.....	67,000	45	1,333,875	1,487	140	17,513,227	1,673	18,914,102
New York.....	95,000	121	4,561,500	5,044	165	64,159,200	5,331	68,815,700
Philadelphia.....	57,500	43	1,275,981	1,303	45	13,719,011	1,392	15,052,492
Cleveland.....	63,000	38	1,054,500	1,571	33	15,414,711	1,643	16,532,211
Richmond.....	52,500	67	1,888,800	2,186	108	22,016,280	2,362	23,957,580
Atlanta.....	65,000	66	1,850,500	2,658	43	24,264,240	2,768	26,179,740
Chicago.....	82,000	62	1,812,400	3,436	131	34,330,826	3,630	36,225,226
St. Louis.....	66,000	48	1,340,000	1,559	57	15,398,671	1,665	16,804,671
Minneapolis.....	62,000	31	941,750	922	18	9,780,385	972	10,784,135
Kansas City.....	70,000	50	1,337,500	1,613	60	15,328,202	1,724	16,735,702
Dallas.....	55,000	43	1,162,309	1,320	37	12,853,600	1,401	14,070,909
San Francisco.....	82,000	68	1,870,300	1,819	66	19,367,998	1,954	21,320,298
Total.....	817,000	682	20,429,415	24,918	903	264,146,351	26,515	285,392,766

¹ Includes salaries of part-time employees.

12. Federal Reserve Bank interest rates, December 31, 1975

Per cent per annum

Federal Reserve Bank	Loans to member banks—			Loans to all others under last par. Sec. 13 ⁴
	Under Secs. 13 and 13a ¹	Under Sec. 10(b) ²		
		Regular rate	Special rate ³	
Boston.....	6	6½	7	9
New York.....	↑	↑	↑	↑
Philadelphia.....	↑	↑	↑	↑
Cleveland.....	↑	↑	↑	↑
Richmond.....	↑	↑	↑	↑
Atlanta.....	↑	↑	↑	↑
Chicago.....	↑	↑	↑	↑
St. Louis.....	↑	↑	↑	↑
Minneapolis.....	↑	↑	↑	↑
Kansas City.....	↑	↑	↑	↑
Dallas.....	↓	↓	↓	↓
San Francisco.....	↓	↓	↓	↓

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.

² Advances secured to the satisfaction of the F.R. Bank. Advances secured by mortgages on 1- to 4-family residential property are made at the Section 13 rate.

³ Applicable to special advances described in Section 201.2(e)(2) of Regulation A.

⁴ 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.

13. Member bank reserve requirements

Per cent of deposits

Through July 13, 1966

Effective date ¹	Net demand deposits ²			Time deposits (all classes of banks)
	Central reserve city banks	Reserve city banks	Country banks	
1917—June 21	13	10	7	3
1936—Aug. 16	19½	15	10½	4½
1937—Mar. 1	22¾	17½	12¾	5½
May 1	26	20	14	6
1938—Apr. 16	22¾	17½	12	5
1941—Nov. 1	26	20	14	6
1942—Aug. 20	24			
Sept. 14	22			
Oct. 3	20			
1948—Feb. 27	22			
June 11	24			
Sept. 24, 16	26	22	16	7½
1949—May 5, 1	24	21	15	7
June 30, July 1		20	14	6
Aug. 1			13	
Aug. 11, 16	23½	19½	12	5
Aug. 18	23	19		
Aug. 25	22½	18½		
Sept. 1	22	18		
1951—Jan. 11, 16	23	19	13	6
Jan. 25, Feb. 1	24	20	14	
1953—July 9, 1	22	19	13	
1954—June 24, 16	21			5
July 29, Aug. 1	20	18	12	
1958—Feb. 27, Mar. 1	19½	17½	11½	
Mar. 20, Apr. 1	19	17	11	
Apr. 17	18½			
Apr. 24	18	16½		
1960—Sept. 1	17½		12	
Nov. 24				
Dec. 1				
1962—July 28	16½			
Oct. 25, Nov. 1	(³)			4

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		Sav- ings	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 6
Sept. 8, 15							
1967—Mar. 2					3½	3½	
Mar. 16					3	3	
1968—Jan. 11, 18	16½	17	12	12½			
1969—Apr. 17	17	17½	12½	13			
1970—Oct. 1							5

¹ Reserves required during the period from inception of the Federal Reserve System until June 20, 1917, were not strictly comparable with later requirements; they were based on aggregate amounts of deposits, and reserve balances with the Reserve Banks were increased in stages. 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, re-

13.—Continued

Beginning Nov. 9, 1972
(Deposit intervals are in millions of dollars)

Effective date	Net demand deposits ^{2,6}					Sav- ings	Time deposits ⁴					
	0-2	2-10	10- 100	100- 400	Over 400		Other time					
							0-5, maturing in—		Over 5 ⁷ , maturing in—			
							Less than 4 years	4 years or more	30-179 days	180 days to 4 years	4 years or more	
1972—Nov. 9.....	8	10	12	⁸ 16½	17½	3	3		5			
Nov. 16.....				13								
1973—July 19.....		10½	12½	13½	18							
1974—Dec. 12.....					17½				6	3		
1975—Feb. 13.....	7½	10	12	13	16½					3	9 1	
Oct. 30.....						3	3	9 1		6	3 9 1	
In effect Dec. 31, 1975	7½	10	12	13	16½	3	3	9 1	6	3	9 1	
Legal limits—Dec. 31, 1975:											Minimum	Maximum
Net demand deposits:												
Reserve city banks.....											10	22
Other banks.....											7	14
Time deposits.....											3	10

spectively; 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.

² (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 (1) foreign branch deposits computed on the basis of net balances due from domestic offices to their foreign branches and (2) foreign branch loans to U.S. residents. Regulation D imposes a similar reserve requirement against (3) borrowings from foreign banks by domestic offices of a member bank. Originally these requirements were levied on amounts above specified bases, but the reserve-free bases were eliminated for (2) effective June 21, 1973, and for (1) and (3) they were gradually removed until eliminated effective Mar. 14, 1974. Beginning June 21, 1973, loans aggregating \$100,000 or less to any U.S. resident have been excluded from computations, as have total loans of a bank to U.S. residents if not exceeding \$1 million. The applicable reserve percentage was 10 per cent originally, was increased to 20 per cent on Jan. 7, 1971, was reduced to 8 per cent on June 21, 1973, and was further reduced to 4 per cent effective May 22, 1975. For details, see Regulations D and M as described in the Record of Policy Actions of the Board of Governors, on p. 120 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. Beginning Nov. 10, 1975, profitmaking businesses may maintain savings deposits of \$150,000 or less at member banks. For details of 1975 action, see Board's Regulations D and Q as described in Record of Policy Actions of the Board of Governors, p. 133.

Notes 2(b), 2(c), and 2(d) above are also relevant to time deposits.

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 From June 21, 1973, through Dec. 11, 1974, member banks, except as noted below, were subject to a marginal reserve requirement against increases in the aggregate of the following types of obligations: (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) beginning July 12, 1973, funds from sales of finance bills. For the period June 21 through Aug. 29, 1973, (a) included only single-maturity time deposits. The requirement applied to balances above a specified base, but was not applicable to banks having obligations of these types aggregating less than \$10 million. Including the basic requirement (5 per cent during the entire period), requirements were: 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 from Dec. 27, 1973, through Sept. 18, 1974. Beginning Sept. 19, the 8 per cent requirement applied to only those obligations in (a) (b), and (c) with initial maturities of less than 120 days, and effective Dec. 12, 1974, the remaining marginal reserve on this type of obligation issued to mature in less than 4 months, was removed. For details, see Record of Policy Actions of the Board of Governors in 1973 and 1974 ANNUAL REPORTS.

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.

⁹ The average of reserves on savings and other time deposits must be at least 3 per cent, the minimum specified by law.

14. 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 3½	4 3½	4	4
Less than 12 months.....								
Postal savings deposits: ¹								
12 months or more.....	3	2½	2½	3	4 3½	4 3½	4	4
Less than 12 months.....								
Other time deposits: ²								
12 months or more.....	3	2½	2½	3	4 3½	4	4½	5½
6-12 months.....								
90 days to 6 months.....	3	2½	2	2½	2½			
Less than 90 days.....	3	2½	1	1	1	1	4	
(30-89 days)								

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: ³				
Multiple maturity: ³				
30-89 days.....	4	4	4	4½ 5 5½ 5¾
90 days to 1 year.....				
1-2 years.....				
2 years or more.....				
Single-maturity:				
Less than \$100,000:				
30 days to 1 year.....	5½	5	5	5 5½ 5¾
1-2 years.....				
2 years or more.....				
\$100,000 or more:				
30-59 days.....	5½	5½	5 5¾ 6 6¼	(4) (4) (4) (4)
60-89 days.....				
90-179 days.....				
180 days to 1 year.....				
1 year or more.....				(4)

Beginning July 1, 1973

Type of deposit	Effective date			
	July 1, 1973	Nov. 1, 1973	Nov. 27, 1974	Dec. 23, 1974
Savings deposits.....	5	5	5	5
Other time deposits (multiple- and single-maturity): ² , ³				
Less than \$100,000:				
30-89 days.....	5	5	5	5
90 days to 1 year.....	5½	5½	5½	5½
1-2½ years.....	6	6	6	6
2½ years or more.....	6½	6½	6½	6½
Minimum denomination of \$1,000: ⁵				
4-6 years.....	(4)	7¼	7¼	7¼
6 years or more.....	(4)	7¼	7¼	7¼
Governmental units.....	(7)	(7)	7½	7¾
\$100,000 or more.....	(4)	(4)	(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.

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.

For additional notes see opposite page.

15. 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 regulations.

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 14 on opposite page:

⁴ Maximum rates on all 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	
180 days to 1 year	7 per cent	May 16, 1973
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 Effective Dec. 4, 1975, the \$1,000 minimum denomination requirement does not apply to time deposits representing funds contributed to an Individual Retirement Account established pursuant to 26 U.S.C. (I.R.C. 1954) Section 408.

⁶ Between July 1 and Oct. 31, 1973, there was no ceiling for certificates maturing in 4 years or more with minimum denominations 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 denominations of \$1,000. There is no limitation on the amount of these certificates that banks may issue.

⁷ Prior to Nov. 27, 1974, no distinction was made between the time deposits of governmental units and of other holders, insofar as Regulation Q ceilings on rates payable were concerned. Effective Nov. 27, 1974, governmental units were permitted to hold savings deposits and could receive interest rates on time deposits with denominations under \$100,000, irrespective of maturity, as high as the maximum rate permitted on such deposits at any Federally insured depository institution.

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.

16. Fees and rates under Regulation V on loans guaranteed pursuant to Defense Production Act of 1950, December 31, 1975

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.

17. Principal assets and liabilities, and number of commercial and mutual savings banks, by class of bank, December 31, 1975 and 1974

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, 1975											
Loans and investments, total.....	891,549	776,074	578,755	441,135	137,620	197,319	183,645	13,674	115,475	102,121	13,354
Loans.....	627,705	546,452	416,561	315,738	100,823	129,891	118,609	11,282	81,254	71,701	9,553
Investments.....	263,843	229,622	162,194	125,397	36,797	67,428	65,036	2,392	34,222	30,421	3,801
U.S. Govt. securities.....	94,917	84,118	61,519	46,799	14,720	22,599	22,109	490	10,799	9,469	1,330
Other securities.....	168,926	145,504	100,675	78,598	22,077	44,829	42,927	1,902	23,422	20,952	2,470
Cash assets.....	135,955	133,614	108,477	78,026	30,451	25,137	19,778	5,359	2,241	2,189	152
Deposits, total.....	897,101	786,532	590,999	447,590	143,409	195,533	184,210	11,323	110,569	98,112	12,457
Interbank.....	51,993	51,993	47,031	28,820	18,211	4,962	2,303	2,659	.....	.....	.....
Other demand.....	284,161	283,131	214,142	162,112	52,029	68,989	66,510	2,479	1,030	993	37
Other time.....	560,947	451,408	329,826	256,657	73,169	121,582	115,397	6,185	109,539	97,119	12,420
Total capital accounts.....	77,545	69,125	52,074	38,969	13,105	17,051	16,400	651	8,421	7,339	1,082
Number of banks.....	15,108	14,633	5,787	4,741	1,046	8,846	8,585	261	475	328	147
December 31, 1974											
Loans and investments, total.....	849,165	744,496	568,806	428,433	140,373	175,690	165,709	9,981	104,669	91,093	13,576
Loans.....	628,275	549,573	429,812	321,466	108,346	119,761	111,300	8,461	78,702	68,408	10,294
Investments.....	220,891	194,924	138,994	106,967	32,027	55,930	54,410	1,520	25,967	22,685	3,282
U.S. Govt. securities.....	61,295	54,451	38,921	29,075	9,846	15,530	15,211	319	6,844	5,968	876
Other securities.....	159,596	140,473	100,073	77,892	22,181	40,400	39,199	1,201	19,123	16,717	2,406
Cash assets.....	130,231	128,042	106,995	76,522	30,473	21,047	18,380	2,667	2,189	2,050	139
Deposits, total.....	847,663	748,292	575,838	431,039	144,799	172,454	165,827	6,627	99,371	86,806	12,565
Interbank.....	53,138	53,138	49,541	29,537	20,004	3,597	2,079	1,518	.....	.....	.....
Other demand.....	274,606	273,676	208,507	157,331	51,176	65,169	62,933	2,236	930	909	21
Other time.....	519,918	421,478	317,789	244,171	73,618	103,689	100,815	2,874	98,440	85,896	12,544
Total capital accounts.....	71,607	63,650	48,240	35,815	12,425	15,410	14,799	611	7,957	6,822	1,135
Number of banks.....	14,944	14,465	5,780	4,706	1,074	8,685	8,436	249	479	319	160

¹ Excludes one national bank in the Virgin Islands and one in Puerto Rico, which are included in Table 19.

NOTE.—All banks in the United States. Details may not add to totals because of rounding.

18. Member bank reserves, Federal Reserve Bank credit, and related items—end of year 1918–75 and end of month 1975

In millions of dollars

Period	Factors supplying reserve funds										
	F.R. Bank credit outstanding							Gold stock ⁵	Special Drawing Rights ⁷ certifi. 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 agreement								
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	4,884	
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		36,411	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.

18.—Continued

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 ¹	Other F.R. liabilities and capital ⁴	Member bank reserves			
		Treasury	Foreign	Other ²			With F.R. Banks	Currency and coin ⁸	Re-quired ⁹	Ex-cess ⁹
4,951	288	51	96	25	118	.....	1,636	.....	1,585	51
5,091	385	31	73	28	208	.....	1,890	.....	1,822	68
5,325	218	57	5	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	491
39,619	612	820	229	321	1,036	.....	18,086	4,151	21,663	574

For notes see last two pages of table.

18. Member bank reserves, Federal Reserve Bank credit, and related items—end of year 1918–75 and end of month 1975 —Continued

In millions of dollars

Period	Factors supplying reserve funds										Gold stock ⁵	Special Drawing Rights certif. acct.	Treasury currency outstanding ⁶
	F.R. Bank credit outstanding									Total			
	U.S. Govt. securities ¹			Loans	Float ²	All other ³	Other F.R. assets ⁴						
	Total	Bought outright ¹⁰	Held under repurchase agreement										
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		
1974...	85,714	84,760	954	299	2,001	999	3,195	92,208	11,652	400	9,253		
1975...	94,124	92,789	1,335	229	3,715	1,126	3,312	102,506	11,599	500	10,112		
1975—													
Jan...	86,134	85,076	1,058	103	1,466	966	3,518	92,187	11,635	400	9,305		
Feb...	86,416	84,152	2,264	77	1,370	993	3,005	91,861	11,621	400	9,371		
Mar...	86,608	86,608	.....	60	2,132	665	3,072	92,537	11,620	400	9,453	
Apr...	93,917	88,812	5,105	1,539	1,942	1,185	3,297	101,880	11,620	400	9,531		
May...	91,029	88,953	2,076	24	1,810	865	2,984	96,712	11,620	500	9,669		
June...	89,895	89,665	230	561	1,791	682	2,997	95,926	11,620	500	9,687		
July...	86,966	86,966	.....	177	1,734	685	3,196	92,758	11,620	500	9,769	
Aug...	88,032	86,677	1,355	231	1,473	840	3,012	93,588	11,598	500	9,851		
Sept...	93,080	89,715	3,365	283	891	948	3,259	98,461	11,599	500	9,934		
Oct...	93,426	90,324	3,102	73	1,127	1,047	3,939	99,612	11,599	500	9,906		
Nov...	91,209	91,209	.....	45	3,070	727	3,252	98,303	11,599	500	10,138	
Dec...	94,124	92,789	1,335	229	3,715	1,126	3,312	102,506	11,599	500	10,112		

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 in 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.

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.

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 ²	Other F.R. liabilities and capital ⁴	Member bank reserves			
		Treasury	Foreign	Other ²			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	5,187	28,173	-901
57,093	431	1,156	148	1,233	.....	1,986	5,423	30,033	-460
61,068	460	2,020	294	999	.....	2,131	5,743	32,496	1,035
66,516	345	1,855	325	840	.....	2,143	6,216	32,044	11 98
72,497	317	2,542	251	1,419	.....	2,669	6,781	35,268	-1,360
79,743	185	3,113	418	1,275	.....	2,935	7,370	37,011	-3,798
86,499	425	7,285	353	1,090	.....	2,968	8,030	35,188	13 -1,055
76,343	250	3,540	391	748	.....	3,415	7,431	37,556	-1,286
76,834	254	2,884	409	901	.....	3,326	6,950	35,333	261
78,062	307	4,269	402	709	.....	3,120	6,826	34,513	-548
78,443	301	8,363	270	573	.....	3,452	7,018	35,014	4,032
79,782	373	7,036	310	1,159	.....	3,396	6,893	34,493	-1,155
81,196	364	5,773	373	701	.....	3,354	7,105	34,428	-1,347
81,475	350	2,675	369	686	.....	3,354	7,546	34,687	-1,401
81,912	364	2,349	342	776	.....	3,311	7,356	34,447	-607
81,707	390	8,075	324	616	.....	3,472	7,561	34,414	-940
82,163	409	8,517	297	594	.....	3,498	7,524	34,082	-418
84,545	463	4,919	347	888	.....	3,403	7,572	34,504	-961
86,499	425	7,285	353	1,090	.....	2,968	8,030	35,188	13 -1,055

¹⁰ Includes, beginning 1969, securities loaned—fully guaranteed by U.S. Govt. securities pledged with F.R. Banks—and excludes (if any) securities sold and scheduled to be bought back under matched sale-purchase transactions.

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. Allowable deficiencies (beginning with first statement week of quarter) included are (in millions): 1973—Q1, \$279; Q2, \$172; Q3, \$112; Q4, \$84; and 1974—Q1, \$67, and Q2, \$58. The transition period ended after the second quarter of 1974.

¹² Beginning July 1973, this item 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.

As of Dec. 12, 1974, the amount of voluntary nonmember bank and foreign-agency and branch deposits at F.R. Banks that are associated with marginal reserves are no longer reported. However, two amounts are reported: (1) deposits voluntarily held as reserves by agencies and branches of foreign banks operating in the United States, and (2) Euro-dollar liabilities.

¹³ Beginning with week ending Nov. 19, 1975, adjusted to include waivers of penalties for reserve deficiencies, in accordance with change in Board policy that became effective Nov. 19, 1975.

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.

19. Changes in number of banking offices in the United States during 1975 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		Insured	Non-insured
				Total	National ¹	State	Insured	Non-insured		
BANKS	Dec. 31, 1974	14,936	14,457	5,782	4,710	1,072	8,438	237	319	160
	Changes during 1975:									
	New banks	276	275	88	75	13	158	29		1
	Placed in receivership	-2	-2	-1	-1		-1			
	Ceased banking operations	-6	-6					-6		
	Suspensions ²	-3	-3				-3			
	Reopening of suspended banks ²	3	3				3			
	Consolidations and absorptions:									
	Banks converted into branches	-86	-82	-46	-36	-10	-36		-3	-1
	Other	-14	-13	-4	-2	-2	-8	-1		-1
	Interclass changes:									
	Nonmember to—									
	National			8	8		-8			
	State member			4		4	-4			
	State member to—									
	National				1	-1				
	Nonmember			-32		-32	32			
	National to—									
	Nonmember			-10	-10		10			
	State member				-1	1				
	Noninsured to—									
	Insured						4	-4		
	State member	-1	-1	1		1		-2		
	Noninsured mutual to insured mutual								12	-12
	Net change	167	171	8	34	-26	147	16	9	-13
	Dec. 31, 1975	15,107	14,632	5,790	4,744	1,046	8,585	257	328	147
BRANCHES AND ADDITIONAL OFFICES	Dec. 31, 1974	29,879	28,237	19,780	15,578	4,202	8,409	48	1,387	255
	Changes during 1975:									
	<i>De novo</i>	1,847	1,644	937	753	184	703	4	154	49
	Banks converted	86	82	44	37	7	38		3	1
	Discontinued	-179	-176	-141	-91	-50	-35		-1	-2
	Sale of branch			-1		-1	1			

	Interclass changes:								
	Nonmember to—								
	National								
			40	40		-40			
	State member								
			19		19	-19			
	State member to—								
	National								
				40	-40				
	Nonmember								
			-43		-43	43			
	National to—								
	State member								
				-119	119				
	Nonmember								
			-117	-117		117			
	Noninsured to insured								
						2	-2		
	Noninsured mutual to insured mutual								
								25	-25
	Facilities reclassified as branches								
	2	2	1	1		1			
	-14	-14	6	9	-3	-20			
	Other								
	1,742	1,538	745	553	192	791	2	181	23
	Net change								
	31,621	29,775	20,525	16,131	4,394	9,200	50	1,568	278
	Dec. 31, 1975 ⁴								
BANKING FACILITIES	Dec. 31, 1974 ⁵								
	197	197	166	156	10	31			
	Changes during 1975:								
	Established								
	1	1	1		1				
	Discontinued								
	-4	-4	-4	-4					
	Interclass changes:								
	National to nonmember								
			-4	-4		4			
	Facilities reclassified as branches								
	-2	-2	-1	-1		-1			
	-5	-5	-8	-9	1	3			
	Net change								
	192	192	158	147	11	34			
	Dec. 31, 1975 ⁵								

¹ Includes 2 national banks (8 branches) in the Virgin Islands and 1 national bank in Puerto Rico; other banks or branches located in the possessions are excluded.

² One bank involved in litigation was suspended and reopened twice.

³ As of Dec. 31, 1975, 4 State member noninsured trust companies are included.

⁴ Excludes banking facilities.

⁵ Provided at military and other Government establishments through arrangements made by the Treasury.

20. Number of par and nonpar banking offices,
December 31, 1975

F.R. district, State, or other area	Total		Par						Nonpar (nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
DISTRICT										
Boston.....	370	2,040	370	2,040	198	1,300	172	740		
New York.....	478	4,588	478	4,588	311	3,982	167	606		
Philadelphia...	394	2,182	394	2,182	254	1,391	140	791		
Cleveland.....	767	2,553	767	2,553	459	2,035	308	518		
Richmond.....	795	4,266	791	4,266	407	2,563	384	1,703	4	
Atlanta.....	1,987	2,635	1,950	2,594	658	1,452	1,292	1,142	37	41
Chicago.....	2,709	3,129	2,709	3,129	925	1,949	1,784	1,180		
St. Louis.....	1,427	1,504	1,427	1,504	428	728	999	776		
Minneapolis...	1,400	414	1,400	414	510	224	890	190		
Kansas City...	2,200	648	2,200	648	823	330	1,377	318		
Dallas.....	1,496	457	1,464	444	673	217	791	227	32	13
San Francisco..	472	5,819	472	5,819	144	4,565	328	1,254		
Total.....	14,495	30,235	14,422	30,181	5,790	20,736	8,632	9,445	73	54
STATE										
Alabama.....	299	457	299	457	113	316	186	141		
Alaska.....	11	88	11	88	6	71	5	17		
Arizona.....	15	443	15	443	3	301	12	142		
Arkansas.....	259	318	259	318	83	180	176	138		
California.....	200	3,578	200	3,578	65	2,983	135	1,595		
Colorado.....	277	54	277	54	149	34	128	20		
Connecticut...	72	564	72	564	26	338	46	226		
Delaware.....	17	137	17	137	5	4	12	133		
District of Columbia....	16	129	16	129	15	127	1	2		
Florida.....	741	196	741	196	326	68	415	128		
Georgia.....	443	692	443	692	73	396	370	296		
Hawaii.....	8	151	8	151	2	11	6	140		
Idaho.....	24	200	24	200	10	167	14	33		
Illinois.....	1,228	216	1,228	216	490	123	738	93		
Indiana.....	406	909	406	909	166	516	240	393		
Iowa.....	660	408	660	408	146	127	514	281		
Kansas.....	616	151	616	151	193	71	423	80		
Kentucky.....	342	509	342	509	91	291	251	218		
Louisiana.....	254	585	189	531	61	286	128	245	65	54
Maine.....	45	287	45	287	23	161	22	126		
Maryland.....	115	751	115	751	47	449	68	302		
Massachusetts.	150	905	150	905	90	670	60	235		
Michigan.....	351	1,562	351	1,562	209	1,228	142	334		
Minnesota.....	746	50	746	50	231	27	515	23		
Mississippi...	185	546	185	546	45	228	140	318		
Missouri.....	702	320	702	320	174	102	528	218		
Montana.....	154	16	154	16	100	11	54	5		
Nebraska.....	448	96	448	96	128	51	320	45		
Nevada.....	8	111	8	111	5	94	3	17		
New Hamp- shire.....	77	111	77	111	45	87	32	24		
New Jersey...	209	1,417	209	1,417	134	1,188	75	229		
New Mexico...	80	206	80	206	43	125	37	81		
New York.....	299	3,200	299	3,200	220	3,026	79	174		
North Carolina....	93	1,586	93	1,586	29	768	64	818		
North Dakota.....	171	89	171	89	47	25	124	64		
Ohio.....	496	1,674	496	1,674	331	1,386	165	288		
Oklahoma.....	463	99	463	99	208	59	255	40		
Oregon.....	47	447	47	447	7	299	40	148		
Pennsylvania..	395	2,276	395	2,276	258	1,540	137	736		
Rhode Island..	16	220	16	220	5	114	11	106		

20.—Continued

F.R. district, State, or other area	Total		Par						Nonpar (nonmember)	
			Total		Member		Nonmember			
	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices	Banks	Branches & offices
STATE— Cont.										
South										
Carolina.....	90	601	86	601	25	306	61	295	4	
South Dakota.....	158	125	158	125	60	89	98	36		
Tennessee.....	343	772	343	772	90	418	253	354		
Texas.....	1,342	138	1,338	138	623	36	715	102	4	
Utah.....	63	204	63	204	17	140	46	64		
Vermont.....	31	139	31	139	16	48	15	91		
Virginia.....	290	1,174	290	1,174	174	896	116	278		
Washington.....	97	685	97	685	29	563	68	122		
West Virginia.....	219	35	219	35	132	23	87	12		
Wisconsin.....	623	336	623	336	160	106	463	230		
Wyoming.....	77	2	77	2	59	1	18	1		
OTHER AREA										
American										
Samoa ²		3		3		1		2		
Guam ²	1	17	1	17		9	1	8		
Puerto Rico ³ ..	15	221	15	221	1	23	14	198		
Virgin Islands ³	8	29	8	29	2	29	6			

¹ Includes 1 Los Angeles branch and 19 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 192 banking facilities. Number of banks and branches differs from that in Table 19 because this table includes banks in Guam, Puerto Rico, and the Virgin Islands but excludes banks and trust companies on which no checks are drawn.

21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1975

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21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1975 ¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 1— The Louisville Trust Company, Louisville, Ky., <i>to merge with</i> The Louisville Trust Bank Company, Louisville, Ky.	272 (Newly organized bank; not in operation)	21	21

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-31-74)

The proposed merger is part of a plan through which The Louisville Trust Company would become a wholly owned subsidiary of United Kentucky, Inc., a proposed bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [The Louisville Trust Bank Company] and, as such, without regard to the acquisition of the surviving bank by United Kentucky, Inc., would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-6-75)

The proposal is a transaction to facilitate the acquisition of The Louisville Trust Company by United Kentucky, Inc., Louisville, Kentucky, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

No. 2— Nova Bank and Trust Company, Springfield, Va., <i>to merge with</i> The Northern Virginia Bank, Springfield, Va.	(Newly organized bank; not in operation)	114	6	6
---------------------------------------------------------------------------------------------------------------------------------------------------	---------------------------------------------	-----	---	---

SUMMARY REPORT BY THE ATTORNEY GENERAL (12-9-74)

The proposed merger is part of a plan through which The Northern Virginia Bank would become a subsidiary of New Virginia Bancorporation, a proposed bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [Nova Bank and Trust Company] and, as such, without regard to the acquisition of the surviving bank by New Virginia Bancorporation, would have no effect on competition.

For notes see p. 410.

21.—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (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 (1-6-75)

The proposal is a transaction to facilitate the acquisition of The Northern Virginia Bank by New Virginia Bancorporation, Springfield, Virginia, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

No. 3—Chemical Bank, New York, N.Y., <i>to acquire the assets and assume the liabilities of Security National Bank, Hempstead, N.Y.</i>	22,990	248	} 346
	1,300	98	

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-17-75)

An acquisition of Security National Bank (hereinafter Security) by Chemical Bank would thus eliminate existing competition and increase concentration in the New York metropolitan area and in various counties in that area, particularly on Long Island. Accordingly, we conclude that such an acquisition would have some adverse competitive effects.

On the basis of information supplied to us by the Comptroller [of the Currency] concerning serious financial problems which exist at Security, we believe that consideration of benefits to the “convenience and needs of the community to be served” may well be relevant in assessing the significance of the competitive effect of this possible transaction. In this respect, the decision of the Supreme Court in *United States v. Third National Bank in Nashville*, 390 U.S. 171, indicates that the availability of any qualified and capable alternative purchasers who are not significant competitors of Security, particularly in retail banking on Long Island, would be relevant.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (1-19-75)

Action by the Board followed a determination by the Comptroller of the Currency of the existence of an emergency at Security National Bank (hereinafter Security) and a request for immediate action to prevent a probable failure of that bank. The Comptroller said external forces and public confidence have adversely affected the operations and condition of Security to the point that an emergency exists.

For notes see p. 410.

21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1975 ¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Continued

Such anticompetitive effects as will be attributable to consummation of the transaction will be clearly outweighed in the public interest by considerations relating to and involved in the emergency situation found to exist. From the record in the case, it does not appear that there are reasonable alternative acquisition possibilities available at this time. Accordingly, it is the Board's judgment that any disposition of the application other than approval would be inconsistent with the public interest, and the Board concludes that the proposed transaction should be approved on a basis that would not preclude immediate consummation of the proposal.

No. 4— The FTB Bank, Cincinnati, Ohio, <i>to merge with</i> The Fifth Third Bank, Cincinnati, Ohio	(Newly organized bank; not in operation)		
	754	34	34

SUMMARY REPORT BY THE ATTORNEY GENERAL (1-17-75)

The proposed merger is part of a plan through which The Fifth Third Bank would become a subsidiary of Fifth Third Bancorp, a proposed bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [The FTB Bank] and, as such, without regard to the acquisition of the surviving bank by Fifth Third Bancorp, would have no effect on competition.

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (2-3-75)

The proposal is a transaction to facilitate the acquisition of The Fifth Third Bank by Fifth Third Bancorp, Cincinnati, Ohio, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

For notes see p. 410.

21.—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 5—United Jersey Bank/Northwest, Dover, N.J., <i>to acquire the assets and assume the liabilities of certain branch offices of</i> United Jersey Bank, Hackensack, N.J.	71	7	} 13
	(³)	³ 6	

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-12-75)

This transaction is essentially part of a corporate reorganization and would have no adverse competitive impact.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (6-6-75)

United Jersey Bank/Northwest (hereinafter Applicant) proposes to acquire 6 existing branch offices and 2 approved, unopened branch offices of United Jersey Bank, Hackensack (hereinafter Hackensack Bank). Applicant is a subsidiary of United Jersey Banks, Princeton, New Jersey (hereinafter United), a bank holding company, and operates 7 offices in northwestern New Jersey in the Morristown commercial banking market. With deposits of \$58 million, Applicant controls 10.3 per cent of the total market deposits and is the 4th largest of 11 banking organizations operating therein. Hackensack Bank, also a subsidiary of United, holds deposits of \$1 billion and is the 2nd largest bank in New Jersey and the 12th largest commercial bank in the Metropolitan New York market. The offices proposed to be acquired by Applicant are the only offices of Hackensack Bank located in northwestern New Jersey. This proposal represents part of a plan of United, the parent holding company of Applicant and Hackensack Bank, to redistribute and centralize the control of offices of its subsidiary banks. The proposal raises no competitive issues because Applicant and Hackensack Bank are under common ownership. Accordingly, competitive considerations are consistent with approval of the application.

The financial and managerial resources of Applicant are generally satisfactory, and the prospects of Applicant following consummation of the transaction appear favorable. Banking factors, therefore, are consistent with approval of the application. Although there are no expanded services planned for the offices to be transferred to Applicant, considerations relating to the convenience and needs of the communities to be served are also regarded as being consistent with approval of the application. It is the Board's judgment that consummation of the proposal would be in the public interest.

For notes see p. 410.

21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1975¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 6—United Jersey Bank, Hackensack, N.J., <i>to merge with</i> The Second National Bank of Orange, Orange, N.J.	1,150	43	} 46
	42	3	

SUMMARY REPORT BY THE ATTORNEY GENERAL (5-12-75)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (6-20-75)

The 2 merging banks are both subsidiaries of United Jersey Banks, Princeton, New Jersey, a bank holding company. United Jersey Bank is the 2nd largest commercial bank in New Jersey and the 12th largest in the Metropolitan New York banking market. The Second National Bank of Orange is the 17th largest of 46 commercial banks in the Greater Newark banking market. The merger raises no competitive issues because both banks are subsidiaries of the same holding company.

The financial and managerial resources of each bank are consistent with approval of the application. Although the proposal is not expected to produce any significant public benefits, the holding company anticipates that the merger of the two banks would result in an increase in operating efficiency. Accordingly, considerations relating to both the banking factors and the convenience and needs of the communities to be served are regarded as being consistent with approval of the application. It is the judgment of the Board of Governors that consummation of the proposal would be consistent with the public interest and that the application should be approved.

No. 7—The Peoples Bank and Trust Company, Richmond, Va., <i>to merge with</i> New Bank of Richmond, Richmond, Va.	10	1	} 2
	4	1	

SUMMARY REPORT BY THE ATTORNEY GENERAL (6-24-75)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

For notes see p. 410.

21.—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (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 (7-24-75)**

The two merging banks are both subsidiaries of NB Corporation, Charlottesville, Virginia, a bank holding company. The Peoples Bank and Trust Company is the 14th largest of 19 competing banks in the relevant banking market, the Richmond-Ranally metropolitan area. New Bank of Richmond is located in the same market, where it ranks 18th. The merger raises no competitive issues because both banks are commonly owned. Accordingly, competitive considerations are consistent with approval.

The financial and managerial resources of each bank are generally satisfactory, and the prospects of the resulting bank following consummation of the transaction appear favorable. Banking factors, therefore, are consistent with approval of the application. NB Corporation anticipates that the merger would result in an increase in operating efficiency and reduced costs, and would provide bank customers with trust services and increased lending capabilities. Accordingly, considerations relating to the convenience and needs of the communities to be served lend weight toward approval of the application. It is concluded that consummation of the proposal would be consistent with the public interest and that the application should be approved.

No. 8—**SBT Bank, Chicago, Ill.,**
to merge with
Sears Bank and Trust
Company, Chicago, Ill.

(Newly organized bank;
not in operation)

273	1	1
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SUMMARY REPORT BY THE ATTORNEY GENERAL (8-27-75)

The proposed merger is part of a plan through which Sears Bank and Trust Company would become a wholly owned subsidiary of Midland Bancorp, Inc., a proposed bank holding company. The instant merger, however, would merely combine an existing bank with a nonoperating institution [SBT Bank] and, as such, without regard to the acquisition of the surviving bank by Midland Bancorp, Inc., would have no effect on competition.

**BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD
OF GOVERNORS UNDER DELEGATED AUTHORITY (10-2-75)**

The proposal is a transaction to facilitate the acquisition of Sears Bank and Trust Company by Midland Bancorp, Inc., Chicago, Illinois, a proposed bank holding company.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

For notes see p. 410.

21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1975¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 9— Chemical Bank , New York, N.Y., <i>to merge with</i> Chemical Bank of Suffolk, National Association , Smithtown, N.Y.	22,990 86	248 13	} 261

SUMMARY REPORT BY THE ATTORNEY GENERAL (7-31-75)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (10-8-75)

Both Chemical Bank and Chemical Bank of Suffolk, National Association, are subsidiaries of Chemical New York Corporation, New York, New York, a bank holding company with 8 subsidiary banks whose aggregate domestic deposits total approximately \$13.8 billion. Because both banks involved in the subject proposal are subsidiaries of the same holding company, consummation of the proposal would not eliminate any existing or potential competition, increase the concentration of banking resources, nor have an adverse effect on other banks within the relevant market. Therefore, the Board concludes that competitive considerations are consistent with approval of the merger.

It is expected that the merger will result in some improvement in the financial position of Chemical Bank because of increased operating efficiencies due to the elimination of certain offices of the 2 banks that are presently in close proximity. Thus, the banking factors lend some weight toward approval of the application. Although Chemical Bank proposes no major changes in its services or operations as a result of the proposed merger, considerations relating to the convenience and needs of the communities to be served are consistent with approval of the application.

No. 10— Commercial Trust Company of New Jersey , Jersey City, N.J., <i>to acquire the assets and assume the liabilities of</i> The First National Bank , Piscataway, Piscataway, N.J.	258 26	15 2	} 17
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SUMMARY REPORT BY THE ATTORNEY GENERAL (11-4-75)

We have reviewed this application and conclude that it would not have a substantial competitive impact.

For notes see p. 410.

21.—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (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 (11-12-75)

Commercial Trust Company of New Jersey (hereinafter Applicant) operates its offices in the Metropolitan New York market, whereas The First National Bank, Piscataway (hereinafter First National), serves the Plainfield market. The nearest offices of the merging banks are 26 miles apart, and their service areas are quite distinct. Accordingly, consummation of the proposal would not eliminate any direct competition or lead to an increase in market concentration. Consummation of the proposed acquisition of assets would foreclose a small amount of potential competition between the 2 banks in the Plainfield market, which, because of recent population and industrial growth, has become a desirable area for *de novo* expansion. Eight banking organizations have entered the market *de novo* since 1970. Although it appears that Applicant is capable of entering the market *de novo*, it has indicated reluctance to do so because of the distance involved.

The financial and managerial resources of Applicant and First National are satisfactory, and the prospects for the resulting bank are favorable. Consequently, banking factors are consistent with approval of the application. Applicant would provide a broad range of services not currently offered by First National—such as a wider variety of loans and mortgages, personal and corporate trust services, customer computer services, and purchase and sale of foreign exchange. In addition, the resulting bank would have a significantly larger lending limit. While it is likely that First National could offer some of these services on its own, it is clear that some others, especially the expanded lending limit, are beyond its grasp within the near future. Although all of the proposed services are available in First National's service area, approval would provide customers in the Plainfield market with an additional convenient source of full-service banking. Convenience and needs, therefore, lend some weight toward approval and outweigh the slightly adverse effects that the proposal would have on potential competition.

No. 11—Bank of Buffalo, Buffalo, N.Y., to merge with Niagara Frontier Bank of New York, Buffalo, N.Y.	144	13	} 19
	44	6	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-18-75)

The parties are in direct competition in and around the city of Buffalo, Erie County, New York. Their nearest offices are separated by less than 0.5 miles. Thus, it appears that the proposed transaction would eliminate existing competition between the parties in Erie County.

For notes see p. 410.

21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1975 ¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

SUMMARY REPORT BY THE ATTORNEY GENERAL—Continued

Bank of Buffalo holds approximately 4.3 per cent of Erie County deposits and Niagara Frontier Bank of New York holds 1.2 per cent, for a combined share of approximately 5.5 per cent. The 2 largest banks with offices in Erie County hold about 75 per cent of total deposits, while the 4 largest hold more than 95 per cent of total county deposits. Thus, the proposed transaction will increase concentration in commercial banking in Erie County, a highly concentrated banking market. Recent entry by major New York City bank holding companies has, however, provided some potential for future deconcentration in the Buffalo area.

We conclude that the proposed transaction would have some adverse competitive effects.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-19-75)

Niagara Frontier Bank of New York (hereinafter Niagara Frontier) is a subsidiary of The Bank of New York Company, Inc., New York, New York, a bank holding company. The holding company filed an application to acquire Bank of Buffalo and at the same time filed an application to merge Bank of Buffalo with Niagara Frontier.

Bank of Buffalo is the 4th largest of 14 banking organizations operating in the Buffalo banking market, holding approximately 4 per cent of the total deposits in commercial banks in the market. Niagara Frontier also operates offices in the Buffalo banking market and controls approximately 1 per cent of the total deposits in commercial banks in the market. Thus, it appears that consummation of the proposed merger would result in the elimination of some existing and future competition in the Buffalo banking market. However, this situation is mitigated to some extent by the presence in the market of 12 alternative commercial banking organizations, including 5 that are affiliated with large bank holding companies based in New York City. It is concluded that consummation of the proposal would not result in a significant adverse effect on competition. The financial and managerial resources of Bank of Buffalo and Niagara Frontier are reasonably satisfactory and are consistent with approval of the application. As a subsidiary of the holding company, the resulting bank will be able to draw upon the holding company's financial and managerial resources and extensive correspondent bank network, and to offer improved and expanded banking services including international banking services, full trust services, and commercial checking services. In addition, the resulting bank will offer its customers day-of-deposit to day-of-withdrawal savings accounts, reduce charges for commercial checking accounts, and maintain free personal checking accounts and low-interest auto loans. Accordingly, considerations relating to the convenience and needs of the communities to be served lend weight toward approval of the application. It is the Board's judgment that the proposed transaction would be in the public interest.

For notes see p. 410.

21.—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 12— The Bank of New York, New York, N.Y., <i>to merge with</i> The County Trust Company, White Plains, N.Y., Valley Bank of New York, Valley Stream, N.Y., Bank of New York, Albany, Albany, N.Y., The Exchange Bank of Olean, Olean, N.Y., Metropolitan Bank of Syracuse, Syracuse, N.Y., The Bank of New York, Southern Tier, Endicott, N.Y., and Bank of Buffalo, Buffalo, N.Y.	2,475 1,225 276 72 61 59 55 188	9 70 29 7 3 5 5 19	} 147

SUMMARY REPORT BY THE ATTORNEY GENERAL (10-23-75)

The merging banks are all wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-19-75)

This proposal represents a corporate reorganization whereby The Bank of New York Company, Inc., New York, New York, a bank holding company, would merge 8 of its existing subsidiary banks into a single bank. Since all of the banks involved in this proposal are subsidiaries of the holding company, consummation of the proposal would not eliminate any existing or potential competition, increase the concentration of banking resources, nor have any adverse effect on other banks within the respective banking markets. Accordingly, the Board concludes that competitive considerations are consistent with approval of the application.

The financial and managerial resources and future prospects of each bank are consistent with approval of the application. The holding company anticipates that the merger of the 8 banks would result in an increase in operating efficiency due to the centralization of the administration of certain functions. The resulting bank will be able to provide a broader range of trust services to upstate customers and will provide daily compounding of interest on savings deposits at all branches. In addition, it will be better able to serve large corporate customers as a result of a higher lending limit. Accordingly, considerations relating to the convenience and needs of the communities to be served are regarded as consistent with approval of the application. It is the Board's judgment that consummation of the proposal would be in the public interest.

For notes see p. 410.

21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1975¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated
No. 13 —Marine Midland Bank, Buffalo, N.Y., <i>to merge with</i> Marine Midland Bank—New York, New York, N.Y., Marine Midland Bank—Western, Buffalo, N.Y., Marine Midland Bank—Central, Syracuse, N.Y., Marine Midland Bank—Rochester, Rochester, N.Y., Marine Midland Bank of Southeastern New York, N.A., Poughkeepsie, N.Y., Marine Midland Bank—Southern, Elmira, N.Y., Marine Midland Bank—Eastern, N.A., Troy, N.Y., Marine Midland Tinker—National Bank, East Setauket, N.Y., Marine Midland Bank—Northern, Watertown, N.Y., Marine Midland Bank—Chautau- qua, N.A., Jamestown, N.Y.	(Newly organized bank; not in operation)		
	6,404	26	} 342
	1,842	91	
	740	45	
	609	36	
	358	38	
	357	25	
	254	25	
	187	27	
	208	19	
163	10		

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-19-75)

Marine Midland Bank is being organized to facilitate the merger of 10 banks that are presently subsidiaries of Marine Midland Banks, Inc., Buffalo, New York, a bank holding company. Since each of the banks to be merged into the new bank is presently controlled by the same holding company, consummation of the merger would not, in the Board's opinion, change competitive conditions or have adverse effects on any other bank in any relevant area. It appears that the quality of services to bank customers in each of the communities served would be improved through certain efficiencies of operation and the utilization of centralized managerial expertise. Convenience and needs factors, therefore, lend weight toward approval. The Board further concludes that considerations relating to the financial and managerial resources and future prospects of the holding company and resulting bank are consistent with, and lend weight toward, approval of the application since consummation should strengthen

For notes see p. 410.

21.—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Continued

the Marine organization by allowing it to better manage its over-all asset, liability, and equity positions, and to facilitate the development of greater management depth.

No. 14— Manufacturers and Traders Trust Company, Buffalo, N.Y., to merge with First Empire Bank—New York, New York, N.Y.	1,342	79	} 81
	156	2	

SUMMARY REPORT BY THE ATTORNEY GENERAL (11-4-75)

The merging banks are both wholly owned subsidiaries of the same bank holding company. As such, their proposed merger is essentially a corporate reorganization and would have no effect on competition.

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS (11-26-75)

Manufacturers and Traders Trust Company (hereinafter Applicant) is the 15th largest commercial bank in New York State and the 2nd largest bank in the Buffalo banking market, where it controls approximately 32 per cent of the total deposits in commercial banks in the market. Applicant also operates branch offices in 4 other markets in western New York State. First Empire Bank—New York (hereinafter First Empire) is located in New York City, and it operates a branch office in Paris, France, and a subsidiary bank in Curacao, Netherlands Antilles. First Empire controls a negligible share of the total deposits in commercial banks in the New York City banking market and engages in a "wholesale" business that specializes in international banking services for business. First Empire does not offer savings accounts to individuals, nor does it grant consumer loans or real estate mortgage loans.

Because both of the banks involved in this proposal are subsidiaries of the same holding company, and because they operate in separate banking markets, consummation of this proposal would not eliminate any existing or potential competition, increase the concentration of banking resources, nor have any adverse effect on other banks within the respective banking markets. Accordingly, the Board concludes that competitive considerations are consistent with approval of the application.

The financial and managerial resources and future prospects of Applicant are consistent with approval of the application. It is anticipated that the merger of these 2 banks would result in an increase in operating effi-

For notes see p. 410.

21. Description of each merger, consolidation, acquisition of assets or assumption of liabilities approved by the Board of Governors during 1975¹—Continued

Name of bank, and type of transaction ² (in chronological order of determination)	Assets (in millions of dollars)	Banking offices	
		In operation	To be operated

BASIS FOR APPROVAL BY THE BOARD OF GOVERNORS—Continued

ciency and more effective reliance on Applicant's financial resources and managerial expertise. The Board is of the view that, under the circumstances of this case, financial and managerial considerations lend weight toward approval of the application. Consideration relating to the convenience and needs of the community to be served are consistent with approval of the application. Accordingly, it is the Board's judgment that consummation of the proposal would be in the public interest and that the application should be approved.

No. 15— Catoctin Trust Company, Thurmont, Md., <i>to merge with</i> The Thurmont Bank, Thurmont, Md.	(Newly organized bank; not in operation)		
	23	4	4

SUMMARY REPORT BY THE ATTORNEY GENERAL

(No report received.)

BASIS FOR APPROVAL BY FEDERAL RESERVE BANK ON BEHALF OF BOARD OF GOVERNORS UNDER DELEGATED AUTHORITY (12-18-75)

The proposal is a transaction to facilitate the acquisition of The Thurmont Bank by Suburban Bancorporation, Hyattsville, Md., a bank holding company, by combining an existing bank with a nonoperating institution—Catoctin Trust Company.

The proposed merger would, in itself, have no adverse competitive effects. The financial and convenience and needs factors are consistent with approval of the application.

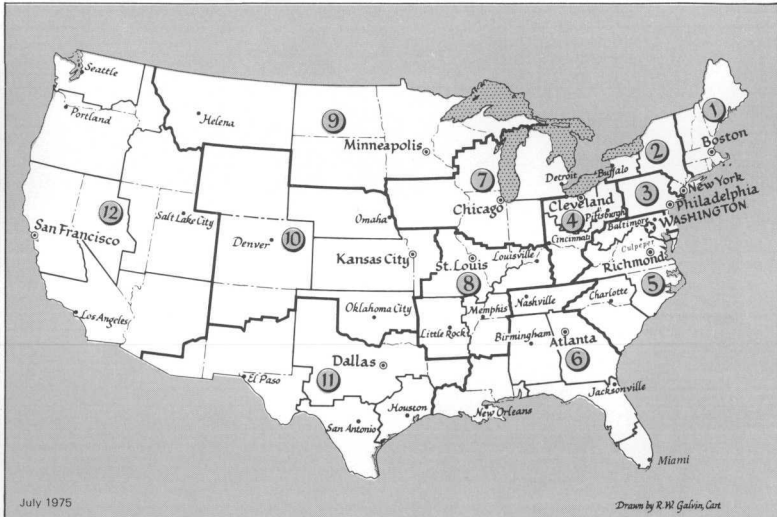
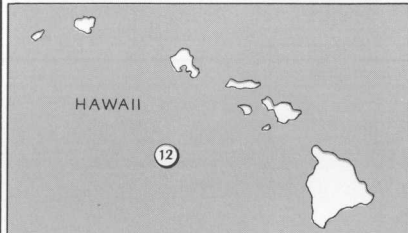
¹ During 1975 the Board disapproved 1 merger application. However, under Section 18(c) of the Federal Deposit Insurance Act only those transactions approved by the Board must be described in its ANNUAL REPORT to Congress.

² Each transaction was proposed to be effected under the charter of the first-named bank.

³ Although United Jersey Bank, Hackensack, N.J., actually has \$1 billion in assets and 43 offices in operation, it is only selling 6 of its offices in operation and 2 approved, unopened offices. The 6 offices in operation have assets of about \$30 million.

★ THE FEDERAL RESERVE SYSTEM ★

BOUNDARIES OF FEDERAL RESERVE DISTRICTS AND THEIR BRANCH TERRITORIES



July 1975

Drawn by R. W. Galvin, Cart

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

*Federal Reserve
Directories and
Meetings*

Board of Governors of the Federal Reserve System

December 31, 1975

Term expires

ARTHUR F. BURNS, of New York, <i>Chairman*</i>	January 31, 1984
GEORGE W. MITCHELL, of Illinois, <i>Vice Chairman*</i>	January 31, 1976
ROBERT C. HOLLAND, of Nebraska	January 31, 1978
PHILIP E. COLDWELL, of Texas	January 31, 1980
PHILIP C. JACKSON, JR., of Alabama	January 31, 1982
JEFFREY M. BUCHER, of California	January 31, 1986
HENRY C. WALLICH, of Connecticut	January 31, 1988
JOHN M. DENKLER, <i>Managing Director for Operations</i>	JOSEPH R. COYNE, <i>Assistant to the Board</i>
J. CHARLES PARTEE, <i>Managing Director for Research and Economic Policy</i>	KENNETH A. GUENTHER, <i>Assistant to the Board</i>
THOMAS J. O'CONNELL, <i>Counsel to the Chairman</i>	JAY PAUL BRENNEMAN, <i>Special Assistant to the Board</i>
ROBERT SOLOMON, <i>Adviser to the Board</i>	FRANK O'BRIEN, JR., <i>Special Assistant to the Board</i>
	DONALD J. WINN, <i>Special Assistant to the Board</i>

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GORDON B. GRIMWOOD, <i>Assistant Director and Program Director for Contingency Planning</i>	PETER E. BARNA, <i>Program Director for Bank Holding Company Analysis</i>

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ARTHUR L. BROIDA, <i>Assistant to the Board</i>	NORMAND R. V. BERNARD, <i>Special Assistant to the Board</i>

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THEODORE E. ALLISON, <i>Secretary</i>	GRIFFITH L. GARWOOD, <i>Assistant Secretary</i>
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EDWARD C. ETTIN, <i>Adviser</i>	

* The designations as the Chairman and the Vice Chairman expire January 31, 1978, and April 30, 1977, respectively, unless the services of these members of the Board shall have terminated sooner.

DIVISION OF RESEARCH AND STATISTICS—Continued

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JOHN N. LYON, <i>Assistant Director</i>	WILLIAM W. WILES, <i>Assistant Director</i>

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JANET O. HART, <i>Deputy Director</i>	ROBERT S. PLOTKIN, <i>Assistant Director</i>

DIVISION OF PERSONNEL

KEITH D. ENGSTROM, <i>Director</i>	CHARLES W. WOOD, <i>Assistant Director</i>
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DIVISION OF ADMINISTRATIVE SERVICES

WALTER W. KREIMANN, <i>Director</i>	JOHN D. SMITH, <i>Assistant Director</i>
DONALD E. ANDERSON, <i>Assistant Director</i>	

OFFICE OF THE CONTROLLER

JOHN KAKALEC, <i>Controller</i>	TYLER E. WILLIAMS, JR., <i>Assistant Controller</i>
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DIVISION OF DATA PROCESSING

CHARLES L. HAMPTON, <i>Director</i>	WARREN N. MINAMI, <i>Assistant Director</i>
BRUCE M. BEARDSLEY, <i>Associate Director</i>	ROBERT J. ZEMEL, <i>Assistant Director</i>
GLENN L. CUMMINS, <i>Assistant Director</i>	

† On leave of absence.

Federal Open Market Committee

December 31, 1975

MEMBERS

ARTHUR F. BURNS, *Chairman* (Board of Governors)
PAUL A. VOLCKER, *Vice Chairman* (Elected by Federal Reserve Bank of New York)
ERNEST T. BAUGHMAN (Elected by Federal Reserve Banks of Atlanta, St. Louis, and Dallas)
JEFFREY M. BUCHER (Board of Governors)
PHILIP E. COLDWELL (Board of Governors)
DAVID P. EASTBURN (Elected by Federal Reserve Banks of Boston, Philadelphia, and Richmond)
ROBERT C. HOLLAND (Board of Governors)
PHILIP C. JACKSON, JR. (Board of Governors)
BRUCE K. MACLAURY (Elected by Federal Reserve Banks of Minneapolis, Kansas City, and San Francisco)
ROBERT P. MAYO (Elected by Federal Reserve Banks of Cleveland and Chicago)
GEORGE W. MITCHELL (Board of Governors)
HENRY C. WALLICH (Board of Governors)

OFFICERS

ARTHUR L. BROIDA, *Secretary*

MURRAY ALTMANN, <i>Deputy Secretary</i>	EDWARD G. BOEHNE, <i>Associate Economist</i>
NORMAND R. V. BERNARD, <i>Assistant Secretary</i>	*RALPH C. BRYANT, <i>Associate Economist</i>
THOMAS J. O'CONNELL, <i>General Counsel</i>	RICHARD G. DAVIS, <i>Associate Economist</i>
EDWARD G. GUY, <i>Deputy General Counsel</i>	RALPH T. GREEN, <i>Associate Economist</i>
J. CHARLES PARTEE, <i>Senior Economist</i>	JOHN KAREKEN, <i>Associate Economist</i>
STEPHEN H. AXILROD, <i>Economist</i> (Domestic Finance)	JOHN E. REYNOLDS, <i>Associate Economist</i>
LYLE E. GRAMLEY, <i>Economist</i> (Domestic Business)	KARL O. SCHELD, <i>Associate Economist</i>
ROBERT SOLOMON, <i>Economist</i> (International Finance)	
ALAN R. HOLMES, <i>Manager, System Open Market Account</i>	
PETER D. STERNLIGHT, <i>Deputy Manager for Domestic Operations</i>	
SCOTT E. PARDEE, <i>Deputy Manager for Foreign Operations</i>	

*On leave of absence.

During 1975 meetings of the Federal Open Market Committee were generally held at monthly intervals. (See Record of Policy Actions taken by the Committee in 1975 on pp. 155-250 of this REPORT.)

Federal Advisory Council

December 31, 1975

MEMBERS

- District No. 1—GEORGE B. ROCKWELL, Vice Chairman, State Street Bank and Trust Company, Boston, Mass.
- District No. 2—ELLMORE C. PATTERSON, Chairman, Morgan Guaranty Trust Company, New York, N.Y.
- District No. 3—JAMES F. BODINE, President and Chief Operating Officer, First Pennsylvania Corporation and First Pennsylvania Bank, N.A., Philadelphia, Pa.
- District No. 4—CLAIR E. FULTZ, Chairman and Chief Executive Officer, Huntington Bancshares, Inc., Columbus, Ohio
- District No. 5—THOMAS I. STORRS, Chairman of the Board, NCNB Corporation, Charlotte, N.C.
- District No. 6—LAWRENCE A. MERRIGAN, President, The Bank of New Orleans and Trust Company, New Orleans, La.
- District No. 7—WILLIAM F. MURRAY, Chairman of the Board, Harris Trust and Savings Bank, Chicago, Ill.
- District No. 8—EDWIN S. JONES, Chairman of the Board, First National Bank in St. Louis, St. Louis, Mo.
- District No. 9—GEORGE H. DIXON, Chairman of the Board and President, First National Bank of Minneapolis, Minneapolis, Minn.
- District No. 10—EUGENE H. ADAMS, Chairman of the Board, The First National Bancorporation, Denver, Colo.
- District No. 11—BEN F. LOVE, Chairman of the Board and Chief Executive Officer, Texas Commerce Bank, N.A., Houston, Tex.
- District No. 12—JAMES B. MAYER, Chairman of the Board and Chief Executive Officer, Valley National Bank, Phoenix, Ariz.

OFFICERS

THOMAS I. STORRS, *President* (Vacancy) *Vice President*
HERBERT V. PROCHNOW, *Secretary*
WILLIAM J. KORSVIK, *Associate Secretary*

EXECUTIVE COMMITTEE

THOMAS I. STORRS, *ex officio* ELLMORE C. PATTERSON
GEORGE H. DIXON

Meetings of the Federal Advisory Council were held on February 6-7, May 1-2, September 11-12, and November 6-7, 1975. The Board of Governors met with the Council on February 7, May 2, September 12, and November 7. The Council, which is composed of 12 leading bankers, one from each Federal Reserve district, is required by law to meet in Washington at least four times each year, and is authorized by the Federal Reserve Act to consult with and advise the Board on all matters within the jurisdiction of the Board.

Federal Reserve Banks and Branches

December 31, 1975

CHAIRMEN AND DEPUTY CHAIRMEN OF BOARDS OF DIRECTORS

Federal Reserve Bank of—	Chairman and Federal Reserve Agent	Deputy Chairman
Boston.....	Louis W. Cabot	Robert M. Solow
New York.....	Roswell L. Gilpatric	Frank R. Milliken
Philadelphia.....	John R. Coleman	Edward J. Dwyer
Cleveland.....	Horace A. Shepard	Robert E. Kirby
Richmond.....	Robert W. Lawson, Jr.	E. Craig Wall, Sr.
Atlanta.....	H. G. Pattillo	Clifford M. Kirtland, Jr.
Chicago.....	Peter B. Clark	Robert H. Strotz
St. Louis.....	Edward J. Schnuck	Sam Cooper
Minneapolis.....	Bruce B. Dayton	James P. McFarland
Kansas City.....	Robert T. Person	Harold W. Andersen
Dallas.....	John Lawrence	Charles T. Beaird
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 May 30 and December 4 and 5, 1975.

Mr. Roswell L. Gilpatric, Chairman of the Federal Reserve Bank of New York, who was elected Chairman of the Conference and of its Executive Committee in December 1974, served in that capacity until the close of the 1975 meetings. Mr. H. G. Pattillo, Chairman of the Federal Reserve Bank of Atlanta, and Mr. John Lawrence, Chairman of the Federal Reserve Bank of Dallas, served with Mr. Gilpatric as members of the Executive Committee; Mr. Pattillo also served as Vice Chairman of the Conference.

On December 5, 1975, Mr. Pattillo was elected Chairman of the Conference and of its Executive Committee to serve for the succeeding year; Mr. Louis W. Cabot, Chairman of the Federal Reserve Bank of Boston, was elected Vice Chairman of the Conference and a member of the Executive Committee; and Dr. John R. Coleman, Chairman of the Federal Reserve Bank of Philadelphia, was elected as the other member of the Executive Committee.

DIRECTORS

Class A and Class B directors are elected by the member banks of the district. Class C directors are appointed by the Board of Governors of the Federal Reserve System.

The Class A directors are chosen as representatives of member banks and, as a matter of practice, are active officers of member banks. The Class B directors may not, under the law, be officers, directors, or employees of banks. At the time of their election they must be actively engaged in their district in commerce, agriculture, or some other industrial pursuit.

The Class C directors may not, under the law, be officers, directors, employees, or stockholders of banks. They are appointed by the Board of Governors as representatives not of any particular group or interest, but of the public interest as a whole.

Federal Reserve Bank branches have either five or seven directors, of whom a majority are appointed by the Board of Directors of the parent Federal Reserve Bank, and the others are appointed by the Board of Governors of the Federal Reserve System.

	<i>Term expires Dec. 31</i>
District 1—BOSTON	
<i>Class A:</i>	
William N. Honey President, The Martha's Vineyard National Bank, Vineyard Haven, Mass.	1975
Francis N. Southworth Chairman of the Board and President, Concord National Bank, Concord, N.H.	1976
James F. English, Jr. Chairman, The Connecticut Bank and Trust Co., Hartford, Conn.	1977
<i>Class B:</i>	
Alfred W. Van Sinderen President, The Southern New England Telephone Company, New Haven, Conn.	1975
G. William Miller President, Textron Inc., Providence, R.I.	1976
Weston P. Figgins Chairman of the Board, Wm. Filene's Sons Company, Boston, Mass.	1977
<i>Class C:</i>	
Louis W. Cabot Chairman of the Board, Cabot Corporation, Boston, Mass.	1975
Kenneth I. Guscott President, Ken Guscott Associates, Boston, Mass.	1976
Robert M. Solow Institute Professor, Massachusetts Institute of Technology, Cambridge, Mass.	1977

District 2—NEW YORK

*Term
expires
Dec. 31*

Class A:

Newman E. Wait, Jr.	President, Adirondack Trust Company, Saratoga Springs, N.Y.	1975
David Rockefeller	Chairman of the Board, The Chase Manhattan Bank, N.A., New York, N.Y.	1976
Stuart McCarty	President, First-City National Bank of Binghamton, Binghamton, N.Y.	1977

Class B:

Jack B. Jackson	President, J. C. Penney Co., Inc., New York, N.Y.	1975
Maurice F. Granville	Chairman of the Board, Texaco, Inc., New York, N.Y.	1976
William S. Sneath	President, Union Carbide Corporation, New York, N.Y.	1977

Class C:

Frank R. Milliken	President, Kennecott Copper Corporation, New York, N.Y.	1975
Alan Pifer	President, Carnegie Corporation of New York, New York, N.Y.	1976
Roswell L. Gilpatric	Partner, Cravath, Swaine and Moore, Attorneys, New York, N.Y.	1977

BUFFALO BRANCH

Appointed by Federal Reserve Bank:

Claude F. Shuchter	Chairman and Chief Executive Officer, Manufacturers and Traders Trust Company, Buffalo, N.Y.	1975
J. Wallace Ely	Chairman of the Board, New York State Corporation, Rochester, N.Y.	1976
Daniel G. Ransom	President, The Wm. Hengerer Co., Buffalo, N.Y.	1976
Stephen T. Christian	Chairman, Marine Midland Bank-Chautauqua N.A., Jamestown, N.Y.	1977

Appointed by Board of Governors:

Donald R. Nesbitt	Owner-Operator, Silver Creek Farms, Albion, N.Y.	1975
Rupert Warren	Former President, Trico Products Corporation, Buffalo, N.Y.	1976
Paul A. Miller	President, Rochester Institute of Technology, Rochester, N.Y.	1977

District 3—PHILADELPHIA

*Term
expires
Dec. 31*

Class A:

John H. Hassler.....	President, The City National Bank and Trust Company of Salem, Salem, N.J.....	1975
Thomas L. Miller.....	President, Upper Dauphin National Bank, Millersburg, Pa.....	1976
William B. Eagleson, Jr.....	Chairman of the Board and President, The Girard Bank, Bala Cynwyd, Pa.....	1977

Class B:

Harold A. Shaub.....	President and Chief Executive Officer, Campbell Soup Co., Camden, N.J.....	1975
William S. Masland.....	President, C. H. Masland & Sons, Carlisle, Pa..	1976
C. Graham Berwind, Jr.....	Chairman and President, Berwind Corporation, Philadelphia, Pa.....	1977

Class C:

Edward J. Dwyer.....	Chairman of the Board, ESB Incorporated, Philadelphia, Pa.....	1975
John R. Coleman.....	President, Haverford College, Haverford, Pa..	1976
(Vacancy).....		1977

District 4—CLEVELAND

Class A:

David L. Brumback, Jr.....	President, Van Wert National Bank, Van Wert, Ohio.....	1975
Edward W. Barker.....	Chairman of the Board, First National Bank of Middletown, Middletown, Ohio.....	1976
Merle E. Gilliland.....	Chairman and Chief Executive Officer, Pittsburgh National Bank, Pittsburgh, Pa.....	1977

Class B:

Rene C. McPherson.....	Chairman of the Board and Chief Executive Officer, Dana Corporation, Toledo, Ohio...	1975
Charles Y. Lazarus.....	Chairman of the Board, The F. & R. Lazarus Co., Columbus, Ohio.....	1976
Donald E. Noble.....	Chairman of the Board and Chief Executive Officer, Rubbermaid Incorporated, Wooster, Ohio.....	1977

	<i>Term expires Dec. 31</i>
District 4—CLEVELAND—Cont.	
<i>Class C:</i>	
Otis A. Singletary President, University of Kentucky, Lexington, Ky.	1975
Robert E. Kirby Chairman and Chief Executive Officer, Westinghouse Electric Corporation, Pittsburgh, Pa.	1976
Horace A. Shepard Chairman of the Board and Chief Executive Officer, TRW Inc., Cleveland, Ohio.	1977

CINCINNATI BRANCH

Appointed by Federal Reserve Bank:

Paul W. Christensen, Jr. President, The Cincinnati Gear Company, Cincinnati, Ohio.	1975
Robert E. Hall President, The First National Bank & Trust Company, Troy, Ohio.	1975
Joseph F. Rippe President, The Provident Bank, Cincinnati, Ohio.	1976
Joe D. Blount President, National Bank of Cynthiana, Cynthiana, Ky.	1977

Appointed by Board of Governors:

Phillip R. Shriver President, Miami University, Oxford, Ohio.	1975
Clair F. Vough Chairman, Productivity Research International, Inc., Lexington, Ky.	1976
Lawrence H. Rogers, II. President, Taft Broadcasting Company, Cincinnati, Ohio.	1977

PITTSBURGH BRANCH

Appointed by Federal Reserve Bank:

Robinson F. Barker Chairman and Chief Executive Officer, PPG Industries, Inc., Pittsburgh, Pa.	1975
Jerry A. Halverson President, The First National Bank and Trust Company of Wheeling, Wheeling, W. Va.	1975
Malcolm E. Lambing, Jr. President and Chief Executive Officer, The First National Bank of Pennsylvania, Erie, Pa.	1976
Richard D. Edwards President, Union National Bank, Pittsburgh, Pa.	1977

District 4—CLEVELAND—Cont.

*Term
expires
Dec. 31*

PITTSBURGH BRANCH—Continued

Appointed by Board of Governors:

W. H. Knoell	President, Cyclops Corporation, Pittsburgh, Pa.	1975
G. Jackson Tankersley	President, Consolidated Natural Gas Company, Pittsburgh, Pa.	1976
Arnold R. Weber	Dean, Graduate School of Industrial Adminis- tration, Carnegie-Mellon University, Pitts- burgh, Pa.	1977

District 5—RICHMOND

Class A:

John H. Lumpkin	Chairman and Chief Executive Officer, The South Carolina National Bank, Columbia, S.C.	1975
Plato P. Pearson, Jr.	Chairman and President, The Citizens National Bank, Gastonia, N.C.	1976
James A. Hardison, Jr.	Chairman and President, The First National Bank of Anson County, Wadesboro, N.C.	1977

Class B:

Osby L. Weir	Retired General Manager, Metropolitan Wash- ington-Baltimore Area, Sears, Roebuck and Company, Bethesda, Md.	1975
Andrew L. Clark	President, Andy Clark Ford, Inc., Princeton, W. Va.	1976
H. Clay Hofheimer, II.	Chairman, Virginia Real Estate Investment Trust, Norfolk, Va.	1977

Class C:

Robert W. Lawson, Jr.	Senior Partner, Charleston Office, Steptoe and Johnson, Attorneys, Charleston, W. Va.	1975
E. Angus Powell	President, Chesterfield Land & Timber Corp., Midlothian, Va.	1976
E. Craig Wall, Sr.	Chairman of the Board, Canal Industries, Inc., Conway, S.C.	1977

District 5—RICHMOND—Cont.

*Term
expires
Dec. 31*

BALTIMORE BRANCH

Appointed by Federal Reserve Bank:

J. R. Chaffinch, Jr.	President, The Denton National Bank, Denton, Md.	1975
J. Stevenson Peck	Chairman of the Board, Union Trust Company of Maryland, Baltimore, Md.	1976
Lacy I. Rice, Jr.	President, The Old National Bank of Martinsburg, Martinsburg, W. Va., and President, Surburban National Bank of Martinsburg, Martinsburg, W. Va.	1976
J. Pierre Bernard	Chairman of the Board, The Annapolis Banking and Trust Company, Annapolis, Md.	1977

Appointed by Board of Governors:

David W. Barton, Jr.	President, The Barton-Gillet Company, Baltimore, Md.	1975
I. E. Killian	Manager, Eastern Region, Exxon Company, U.S.A., Baltimore, Md.	1976
James G. Harlow	President, West Virginia University, Morgantown, W. Va.	1977

CHARLOTTE BRANCH

Appointed by Federal Reserve Bank:

William W. Bruner	Chairman of the Board and President, First National Bank of South Carolina, Columbia, S.C.	1975
Thomas L. Benson	President, The Conway National Bank, Conway, S.C.	1976
W. B. Apple, Jr.	President, First National Bank of Reidsville, Reidsville, N.C.	1976
John T. Fielder	President, J. B. Ivey and Company, Charlotte, N.C.	1977

Appointed by Board of Governors:

Robert C. Edwards	President, Clemson University, Clemson, S.C.	1975
Charles W. DeBell	General Manager, North Carolina Works, Western Electric Company, Inc., Winston-Salem, N.C.	1976
Charles F. Benbow	Senior Vice President, R. J. Reynolds Industries, Inc., Winston-Salem, N. C.	1977

District 6—ATLANTA

*Term
expires
Dec. 31*

Class A:

Sam I. Yarnell	Chairman, American National Bank and Trust Company, Chattanooga, Tenn.	1975
John T. Oliver, Jr.	President, First National Bank of Jasper, Jasper, Ala.	1976
Jack P. Keith	President, First National Bank of West Point, West Point, Ga.	1977

Class B:

George W. Jenkins	Chairman, Publix Super Markets, Inc., Lakeland, Fla.	1975
Robert T. Hornbeck	Manager, Tennessee Operations, Aluminum Company of America, Alcoa, Tenn.	1976
Ulysses V. Goodwyn	Executive Vice President, Southern Natural Resources, Inc., Birmingham, Ala.	1977

Class C:

F. Evans Farwell	President, Milliken & Farwell, Inc., New Orleans, La.	1975
C. M. Kirtland, Jr.	President, Cox Broadcasting Corporation, Atlanta, Ga.	1976
H. G. Pattillo	Chairman, Pattillo Construction Company, Inc., Decatur, Ga.	1977

BIRMINGHAM BRANCH

Appointed by Federal Reserve Bank:

John Alexander, Jr.	President, City National Bank of Birmingham, Birmingham, Ala.	1975
Clarence L. Turnipseed	President, First National Bank, Brewton, Ala.	1976
John Maples, Jr.	Executive Vice President, Union Bank & Trust Company, Montgomery, Ala.	1976
D. C. Wadsworth, Jr.	President, American National Bank of Gadsden, Gadsden, Ala.	1977

Appointed by Board of Governors:

Frank P. Samford, Jr.	Chairman of the Board, Liberty National Life Insurance Company, Birmingham, Ala.	1975
William H. Martin, III.	Executive Vice President, Martin Industries, Inc., Sheffield, Ala.	1976
Harold B. Blach, Jr.	President, J. Blach & Sons, Inc., Birmingham, Ala.	1977

District 6—ATLANTA—Cont.

Term
expires
Dec. 31

JACKSONVILLE BRANCH

Appointed by Federal Reserve Bank:

John T. Cannon, III.....	President, Barnett Bank of Cocoa, N.A., Cocoa, Fla.....	1975
MacDonnell Tyre.....	Chairman, Sun First National Bank of Orlando, Orlando, Fla.....	1976
Richard A. Cooper.....	Chairman of the Board, First National Bank of New Port Richey, New Port Richey, Fla.....	1976
Chauncey W. Lever.....	Chairman, Florida National Banks of Florida, Inc., Jacksonville, Fla.....	1977

Appointed by Board of Governors:

James E. Lyons.....	President, Lyons Industrial Corporation, Winter Haven, Fla.....	1975
Egbert R. Beall.....	President, Beall's Department Stores, Braden- ton, Fla.....	1976
Gert H. W. Schmidt.....	President, TeLeVision 12 of Jacksonville, Jacksonville, Fla.....	1977

MIAMI BRANCH

Appointed by Federal Reserve Bank:

Michael J. Franco.....	Chairman, City National Bank of Miami, Miami, Fla.....	1976
Harry Hood Bassett.....	Chairman of the Board, Southeast Banking Corporation, Miami, Fla.....	1977
Thomas F. Fleming, Jr.....	Chairman of the Board, First Bancshares of Florida, Boca Raton, Fla.....	1978
Jean McArthur Davis.....	President, McArthur Dairy, Inc., Miami, Fla..	1979

Appointed by Board of Governors:

Castle W. Jordan.....	President, Aegis Corporation, Coral Gables, Fla.....	1976
David G. Robinson.....	President, Edison Community College, Fort Myers, Fla.....	1977
Alvaro Luis Carta.....	President, Gulf + Western Americas Corpora- tion, Vero Beach, Fla.....	1978

District 6—ATLANTA—Cont.

Term
expires
Dec. 31

NASHVILLE BRANCH

Appointed by Federal Reserve Bank:

Robert E. Curry	President, First National Bank of Pulaski, Pulaski, Tenn.	1975
T. Scott Fillebrown, Jr.	Vice Chairman, First American National Bank of Nashville, Nashville, Tenn.	1976
Fred R. Lawson	President, Blount National Bank of Maryville, Maryville, Tenn.	1976
W. M. Johnson	President, First National Bank, Sparta, Tenn.	1977

Appointed by Board of Governors:

John C. Tune	Partner, Butler, Tune, and Entrekin, Attorneys, Nashville, Tenn.	1975
James W. Long	President, Robertson County Farm Bureau, Springfield, Tenn.	1976
James R. Lawson	Fisk University, Nashville, Tenn.	1977

NEW ORLEANS BRANCH

Appointed by Federal Reserve Bank:

Ernest F. Ladd, Jr.	Chairman, The Merchants National Bank, Mobile, Ala.	1975
Martin C. Miler	Chairman of the Board and President, The Hibernia National Bank, New Orleans, La.	1976
Charles W. McCoy	Chairman of the Board and President, Louisiana National Bank, Baton Rouge, La.	1976
R. B. Lampton	President, First National Bank of Jackson, Jackson, Miss.	1977

Appointed by Board of Governors:

Edwin J. Caplan	President, Caplan's Men's Shops, Inc., Alex- andria, La.	1975
Floyd W. Lewis	President, Middle South Utilities, Inc., New Orleans, La.	1976
Fred Adams, Jr.	President, Cal-Maine Foods, Inc., Jackson, Miss.	1977

	<i>Term expires Dec. 31</i>
District 7—CHICAGO	
<i>Class A:</i>	
Edward Byron Smith Chairman of the Board, The Northern Trust Company, Chicago, Ill.	1975
Jay J. DeLay President, Huron Valley National Bank, Ann Arbor, Mich.	1976
John F. Spies President, Iowa Trust and Savings Bank, Emmetsburg, Iowa	1977
<i>Class B:</i>	
Oscar G. Mayer Chairman of the Executive Committee, Oscar Mayer & Co., Inc., Madison, Wis.	1975
Paul V. Farver President, Rolscreen Company, Pella, Iowa . . .	1976
John T. Hackett Executive Vice President, Cummins Engine Company, Inc., Columbus, Ind.	1977
<i>Class C:</i>	
Peter B. Clark Chairman and President, The Evening News Association, Detroit, Mich.	1975
Robert H. Strotz President, Northwestern University, Evanston, Ill.	1976
Leo H. Schoenhofen Chairman of the Board, Marcor, Inc., Chicago, Ill.	1977

DETROIT BRANCH

Appointed by Federal Reserve Bank:

Joseph B. Foster President, Ann Arbor Bank, Ann Arbor, Mich..	1975
Roland A. Mewhort Director and Consultant, Manufacturers Na- tional Bank of Detroit, Detroit, Mich.	1975
Robert M. Surdam Chairman of the Board, National Detroit Corporation, Detroit, Mich.	1976
Harold A. Elgas President, Gaylord State Bank, Gaylord Mich..	1977

Appointed by Board of Governors:

W. M. Defoe Chairman of the Board, Defoe Shipbuilding Company, Bay City, Mich.	1975
Jordan B. Tatter President and Chief Executive Officer, Southern Michigan Cold Storage Co., Benton Harbor, Mich.	1976
Tom Killefer Executive Vice President and General Counsel, Chrysler Corporation, Detroit, Mich.	1977

District 8—ST. LOUIS *Term expires Dec. 31*

Class A:

William E. Weigel	Executive Vice President, First National Bank & Trust Co., Centralia, Ill.	1975
Raymond C. Burroughs	President, The City National Bank of Murphysboro, Murphysboro, Ill.	1976
Donald N. Brandin	Chairman of the Board and President, The Boatmen's National Bank of St. Louis, St. Louis, Mo.	1977

Class B:

Tom K. Smith	Group Vice President, Monsanto Company, St. Louis, Mo.	1975
Fred I. Brown, Jr.	President, Arkansas Foundry Company, Little Rock, Ark.	1976
Ralph C. Bain	Senior Vice President and General Manager, Arkla Industries, Inc., Evansville, Ind.	1977

Class C:

Sam Cooper	Chairman, HumKo Products, Division of Kraftco Corporation, Memphis, Tenn.	1975
Harry M. Young, Jr.	Melrose Farm, Herndon, Ky.	1976
Edward J. Schnuck	Chairman of the Board, Schnuck Markets, Inc., Bridgeton, Mo.	1977

LITTLE ROCK BRANCH

Appointed by Federal Reserve Bank:

Thomas G. Vinson	Executive Vice President, The Citizens Bank, Batesville, Ark.	1975
Field Wasson	President, First National Bank, Siloam Springs, Ark.	1975
Herbert H. McAdams, II.	Chairman of the Board and Chief Executive Officer, Union National Bank of Little Rock, Little Rock, Ark.	1976
Thomas E. Hays, Jr.	President and Chief Executive Officer, First National Bank of Hope, Hope, Ark.	1977

Appointed by Board of Governors:

G. Larry Kelley	President, Pickens-Bond Construction Company, Little Rock, Ark.	1975
Roland R. Rimmel	Chairman of the Board, Southland Building Products Co., Little Rock, Ark.	1976
Ronald W. Bailey	Executive Vice President and General Manager, Producers Rice Mill, Inc., Stuttgart, Ark.	1977

District 8—ST. LOUIS—Cont.

*Term
expires
Dec. 31*

LOUISVILLE BRANCH

Appointed by Federal Reserve Bank:

Herbert J. Smith	President, The American National Bank and Trust Company of Bowling Green, Bowling Green, Ky.	1975
Tom G. Voss	President, The Seymour National Bank, Seymour, Ind.	1975
Harold E. Jackson	President, The Scott County State Bank, Scottsburg, Ind.	1976
J. David Grissom	President and Chief Operating Officer, Citizens Fidelity Corporation, Louisville, Ky.	1977

Appointed by Board of Governors:

James H. Davis	Chairman and Chief Executive Officer, Porter Paint Co., Louisville, Ky.	1975
William H. Stroube	Associate Dean, College of Science and Technology, Western Kentucky University, Bowling Green, Ky.	1976
James C. Hendershot	President, Reliance Universal, Inc., Louisville, Ky.	1977

MEMPHIS BRANCH

Appointed by Federal Reserve Bank:

Ridley Alexander	Chairman, The Second National Bank of Jackson, Jackson, Tenn.	1975
William W. Mitchell	Chairman and Chief Executive Officer, First National Bank of Memphis, Memphis, Tenn.	1975
William M. Campbell	Chairman and Chief Executive Officer, First National Bank of Eastern Arkansas, Forest City, Ark.	1976
Charles S. Youngblood	President and Chief Executive Officer, First Columbus National Bank, Columbus, Miss.	1977

Appointed by Board of Governors:

Jeanne L. Holley	Associate Professor of Business Education, University of Mississippi, University, Miss.	1975
Robert E. Healy	Partner-in-Charge of the Mid-South Area, Price Waterhouse & Co., Memphis, Tenn.	1976
Frank A. Jones, Jr.	President, Cook Industries, Inc., Memphis, Tenn.	1977

	<i>Term expires Dec. 31</i>
District 9—MINNEAPOLIS	
<i>Class A:</i>	
David M. Smith.....President, The First National Bank of River Falls, River Falls, Wis.....	1975
Charles T. Undlin.....President, First National Bank of the Black Hills, Rapid City, S. Dak.....	1976
William E. Ryan.....President, Citizens State Bank, Ontonagon, Mich.....	1977
<i>Class B:</i>	
David M. Heskett.....President, Montana-Dakota Utilities Company, Bismarck, N. Dak.....	1975
Warren B. Jones.....Secretary-Treasurer and General Manager, Two Dot Land & Livestock Co., Harlowton, Mont.....	1976
Donald P. Helgeson.....Secretary-Treasurer, Jack Frost, Inc., St. Cloud, Minn.....	1977
<i>Class C:</i>	
James P. McFarland....Chairman of the Board, General Mills, Inc., Minneapolis, Minn.....	1975
Howard R. Swearer....President, Carleton College, Northfield, Minn..	1976
Bruce B. Dayton.....Chairman of the Executive Committee, Dayton Hudson Corporation, Minneapolis, Minn....	1977

HELENA BRANCH

<i>Appointed by Federal Reserve Bank:</i>	
Donald Olsson.....President, Ronan State Bank, Ronan, Mont...	1975
John Reichel.....President, First National Bank, Great Falls, Mont.....	1976
George H. Selover.....President and General Manager, Selover Buick-Jeep, Inc., Billings, Mont.....	1976
<i>Appointed by Board of Governors:</i>	
William A. Cordingley..Publisher and President, Great Falls Tribune, Great Falls, Mont.....	1975
James C. Garlington....Senior Partner, Garlington, Lohn and Robinson, Attorneys, Missoula, Mont.....	1976

District 10—KANSAS CITY *Term expires Dec. 31*

Class A:

Roger D. Knight, Jr.	Chairman of the Board, United Banks of Colorado, Inc., Denver, Colo.	1975
Philip Hamm	President, First National Bank and Trust Company, El Dorado, Kans.	1976
Craig Bachman	President, First National Bank of Centralia, Centralia, Kans.	1977

Class B:

Cecil O. Emrich	President, C. O. Emrich Enterprises, Norfolk, Nebr.	1975
Donald J. Hall	President, Hallmark Cards, Inc., Kansas City, Mo.	1976
Frank C. Love	Of Counsel, Crowe, Dunlevy, Thweatt, Swinford, Johnson and Burdick, Attorneys, Oklahoma City, Okla.	1977

Class C:

Harold W. Andersen	President, Omaha World-Herald Company, Omaha, Nebr.	1975
Robert T. Person	Chairman of the Board and President, Public Service Co. of Colorado, Denver, Colo.	1976
Joseph H. Williams	President, The Williams Companies, Tulsa, Okla.	1977

DENVER BRANCH

Appointed by Federal Reserve Bank:

Felix Buchenroth, Jr.	President, The Jackson State Bank, Jackson, Wyo.	1975
Dale R. Hinman	Chairman of the Board, The Greeley National Bank, Greeley, Colo.	1976
William H. Vernon	Chairman and Chief Executive Officer, Santa Fe National Bank, Santa Fe, N. Mex.	1976

Appointed by Board of Governors:

Maurice B. Mitchell	Chancellor, University of Denver, Denver, Colo.	1975
Edward R. Lucero	President and Chairman, Colorado Economic Development Association, Denver, Colo.	1976

District 10—KANSAS CITY—Cont.

*Term
expires
Dec. 31*

OKLAHOMA CITY BRANCH

Appointed by Federal Reserve Bank:

W. H. McDonald	Retired Chairman, The First National Bank and Trust Company of Oklahoma City, Oklahoma City, Okla.	1975
Hugh C. Jones	Executive Vice President, The Bank of Woodward, Woodward, Okla.	1976
V. M. Thompson, Jr.	President, Utica National Bank and Trust Company, Tulsa, Okla.	1976

Appointed by Board of Governors:

James G. Harlow, Jr.	President, Oklahoma Gas and Electric Company, Oklahoma City, Okla.	1975
Harley Custer	General Manager, Oklahoma Livestock Marketing Association, Oklahoma City, Okla.	1976

OMAHA BRANCH

Appointed by Federal Reserve Bank:

Glenn Yaussi	Vice Chairman of the Board, National Bank of Commerce Trust & Savings, Lincoln, Nebr.	1975
Roy G. Dinsdale	Chairman of the Board, Farmers National Bank of Central City, Central City, Nebr.	1975
F. Phillips Giltner	President, First National Bank of Omaha, Omaha, Nebr.	1976

Appointed by Board of Governors:

Durward B. Varner	President, University of Nebraska, Lincoln, Nebr.	1975
Edward F. Owen	President, Paxton & Vierling Steel Company, Omaha, Nebr.	1976

District 11—DALLAS

Class A:

Robert H. Stewart, III.	Chairman of the Board, First International Bancshares, Dallas, Tex.	1975
Gene D. Adams	President, The First National Bank of Seymour, Seymour, Tex.	1976
Frank Junell	Chairman of the Board, The Central National Bank of San Angelo, San Angelo, Tex.	1977

F.R. BANKS AND BRANCHES—Continued**District 11—DALLAS—Cont.** *Term
expires
Dec. 31**Class B:*

Thomas W. Herrick	Cattle and investments, Amarillo, Tex.	1975
Stewart Orton	President, Foley's, Inc., Houston, Tex.	1976
Gerald D. Hines	Owner, Gerald D. Hines Interests, Houston, Tex.	1977

Class C:

Charles T. Beaird	Chairman of the Board, Beaird-Poulan Divi- sion, Emerson Electric Co., Shreveport, La.	1975
John Lawrence	Chairman of the Board, Dresser Industries, Inc., Dallas, Tex.	1976
Irving A. Mathews	Chairman of the Board and Chief Executive Officer, Frost Bros., Inc., San Antonio, Tex.	1977

EL PASO BRANCH*Appointed by Federal Reserve Bank:*

Reed H. Chittim	President, First National Bank of Lea County, Hobbs, N. Mex.	1975
Sam D. Young, Jr.	President, El Paso National Bank, El Paso, Tex.	1975
C. J. Kelly	President and Chairman of the Board, The First National Bank of Midland, Midland, Tex.	1976
Wayne Stewart	President, First National Bank in Alamogordo, Alamogordo, N. Mex.	1977

Appointed by Board of Governors:

J. Luther Davis	Chairman of the Board and President, Tucson Gas & Electric Company, Tucson, Ariz.	1975
Herbert M. Schwartz	President, Popular Dry Goods Co., Inc., El Paso, Tex.	1976
Gage Holland	Owner, Gage Holland Ranch, Alpine, Tex.	1977

HOUSTON BRANCH*Appointed by Federal Reserve Bank:*

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
Page K. Stubblefield	President, Victoria Bank & Trust Company, Victoria, Tex.	1976
Seth W. Dorbandt	Chairman and President, First National Bank in Conroe, Conroe, Tex.	1977

District 11—DALLAS—Cont.

*Term
expires
Dec. 31*

HOUSTON BRANCH—Continued

Appointed by Board of Governors:

Alvin I. Thomas	President, Prairie View A & M University, Prairie View, Tex.	1975
Thomas J. Barlow	President and Chief Executive Officer, Ander- son Clayton & Co., Houston, Tex.	1976
Gene M. Woodfin	President, Chairman, and Chief Executive Officer, Marathon Manufacturing Company, Houston, Tex.	1977

SAN ANTONIO BRANCH

Appointed by Federal Reserve Bank:

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
Ben R. Low	President, First National Bank of Kerrville, Kerrville, Tex.	1976
Leon Stone	President, The Austin National Bank, Austin, Tex.	1977

Appointed by Board of Governors:

Pete J. Morales, Jr.	President and General Manager, Morales Feed Lots, Inc., Devine, Tex.	1975
Margaret S. Wilson	Chairman of the Board and Chief Executive Officer, Scarbroughs Department Store, Austin, Tex.	1976
Marshall Boykin, III	Senior Partner, Wood, Boykin & Wolter, Lawyers, Corpus Christi, Tex.	1977

District 12—SAN FRANCISCO

Class A:

James E. Phillips	President, First National Bank in Port Angeles, Port Angeles, Wash.	1975
A. W. Clausen	President and Chief Executive Officer, Bank of America, NT & SA, San Francisco, Calif.	1976
Carl E. Schroeder	Chairman and Chief Executive Officer, The First National Bank of Orange County, Orange, Calif.	1977

F.R. BANKS AND BRANCHES—Continued

District 12—SAN FRANCISCO—Cont.

*Term
expires
Dec. 31*

Class B:

Joseph Rosenblatt	Honorary Chairman of the Board, The Eimco Corporation, Salt Lake City, Utah	1975
Clair L. Peck	Chairman of the Board, C. L. Peck Contractor, Los Angeles, Calif.	1976
Charles R. Dahl	President and Chief Executive Officer, Crown Zellerbach Corporation, San Francisco, Calif.	1977

Class C:

Joseph F. Alibrandi	President and Chief Executive Officer, Whit-taker Corporation, Los Angeles, Calif.	1975
O. Meredith Wilson	Retired President, Center for Advanced Study in the Behavioral Sciences, Stanford, Calif.	1976
Cornell C. Maier	President and Chief Executive Officer, Kaiser Aluminum & Chemical Corporation, Oak-land, Calif.	1977

LOS ANGELES BRANCH

Appointed by Federal Reserve Bank:

W. Gordon Ferguson	President, National Bank of Whittier, Whittier, Calif.	1975
Linus E. Southwick	President, Valley National Bank, Glendale, Calif.	1976
Robert A. Barley	President, United California Bank, Los Angeles, Calif.	1976
Rayburn S. Dezember	Chairman and President, American National Bank, Bakersfield, Calif.	1977

Appointed by Board of Governors:

Harvey A. Proctor	Chairman of the Board, Southern California Gas Company, Los Angeles, Calif.	1975
Armando M. Rodriguez	President, East Los Angeles College, Los Angeles, Calif.	1976
Joseph R. Vaughan	President, Knudsen Corporation, Los Angeles, Calif.	1977

District 12—SAN FRANCISCO—Cont.

*Term
expires
Dec. 31*

PORTLAND BRANCH

Appointed by Federal Reserve Bank:

LeRoy B. Staver	Director, United States National Bank of Oregon, Portland, Oreg.	1975
Frank L. Servoss	President, Crater National Bank, Medford, Oreg.	1976
James J. Stanard	Executive Vice President, First National Bank of McMinnville, McMinnville, Oreg.	1976

Appointed by Board of Governors:

Loran L. Stewart	President, Bohemia Inc., Eugene, Oreg.	1975
John R. Howard	President, Lewis and Clark College, Portland, Oreg.	1976

SALT LAKE CITY BRANCH

Appointed by Federal Reserve Bank:

Mary S. Jensen	Chairman of the Board, Idaho State Bank, Glens Ferry, Idaho	1975
Roy W. Simmons	President, Zions First National Bank, Salt Lake City, Utah	1976
David P. Gardner	President, University of Utah, Salt Lake City, Utah	1976

Appointed by Board of Governors:

Theodore C. Jacobsen	Partner, Jacobsen Construction Company, Inc., Salt Lake City, Utah	1975
Sam Bennion	President, V-1 Oil Company, Idaho Falls, Idaho	1976

SEATTLE BRANCH

Appointed by Federal Reserve Bank:

Joseph C. Baillargeon	Chairman and Chief Executive Officer, Seattle Trust and Savings Bank, Seattle, Wash.	1975
Harry S. Goodfellow	Chairman of the Board and Chief Executive Officer, Old National Bank of Washington, Spokane, Wash.	1976
Lloyd E. Cooney	President and General Manager, KIRO—Radio & Television, Seattle, Wash.	1976

Appointed by Board of Governors:

Thomas T. Hirai	President and Director, Quality Growers Company, Woodinville, Wash.	1975
Malcolm T. Stamper	President, The Boeing Company, Seattle, Wash.	1976

PRESIDENTS AND VICE PRESIDENTS

December 31, 1975

Federal Reserve Bank or branch	President First Vice President	Vice Presidents	
Boston	Frank E. Morris James A. McIntosh	D. Harry Angney* R. W. Eisenmenger* Niels O. Larsen* Bruce W. Bean Norman S. Fieleke Jay W. Kim Richard E. Randall Walter T. Sullivan James T. Timberlake	Daniel Aquilino* T. F. Hunt, Jr.* Lee J. Aubrey F. K. Cummings Luther M. Hoyle, Jr. D. A. Pelletier Laurence H. Stone J. M. Thayer, Jr. Richard A. Walker
New York	Paul A. Volcker Richard A. Debs	Alan R. Holmes† Edward G. Guy* Thomas C. Sloane* Richard G. Davis Chester B. Feldberg John T. Keane Scott E. Pardee F. C. Schadrack, Jr. Peter D. Sternlight Ronald B. Gray	T. M. Timlen, Jr.† Fred W. Piderit, Jr.* W. H. Braun, Jr. Karl L. Ege P. B. Henderson, Jr. Robert E. Lloyd, Jr. A. M. Puckett F. L. Smedley H. David Willey
Buffalo Philadelphia	David P. Eastburn Mark H. Willes	K. G. Adack* Hugh Chairnoff Richard W. Epps Hiliary H. Holloway Ira Kaminow Donald J. McAneny L. C. Murdoch, Jr. Bipin C. Shah	Edward G. Boehne* Thomas K. Desch James F. Gaylord W. Lee Hoskins A. A. Kudelich G. William Metz William E. Roman Richard L. Smoot
Cleveland	Willis J. Winn W. H. MacDonald	W. H. Hendricks* John E. Birky Paul Breidenback William J. Hocter R. Thomas King Lester M. Selby Donald G. Vincel Charles A. Cerino Robert D. Duggan*	Donald G. Benjamin George E. Booth, Jr. R. Joseph Ginnane Harry W. Huning T. E. Ormiston, Jr. Harold J. Swart Virginia L. Whitmer Robert E. Showalter Samuel G. Campbell
Cincinnati Pittsburgh			
Richmond	Robert P. Black George C. Rankin	Welford S. Farmer* James Parthemos* R. E. Sanders, Jr.* L. W. Bostian, Jr. John G. Deitrick William C. Glover A. V. Myers, Jr. Aubrey N. Snellings James F. Tucker	John L. Nosker* John F. Rand* Elizabeth W. Angle J. A. Broadus, Jr. George B. Evans R. D. McTeer, Jr. C. D. Porter, Jr. Andrew L. Tilton Joseph F. Viverette

For notes see p. 440.

F.R. BANKS AND BRANCHES—Continued

PRESIDENTS AND VICE PRESIDENTS—Continued

Federal Reserve Bank or branch	President First Vice President	Vice Presidents
Richmond— Cont. Baltimore Charlotte Culpeper ¹		J. R. Monhollon* W. E. Pascoe, III Gerald L. Wilson Stuart P. Fishburne* Boyd Z. Eubanks A. D. Tinkelenberg John G. Stoides
Atlanta Birmingham Jacksonville Miami Nashville New Orleans	Monroe Kimbrel Kyle K. Fossum	R. P. Forrestal* Billy H. Hargett* Arthur H. Kantner* Brown R. Rawlings* Harry Brandt W. R. Caldwell F. J. Craven, Jr. Charles D. East Delmar Harrison Robert E. Heck William G. Pfaff Pierre M. Viguerie Hiram J. Honea Edward C. Rainey* Vestus L. Crow W. M. Davis Jeffrey J. Wells George C. Guynn
Chicago Detroit	Robert P. Mayo Daniel M. Doyle	Carl E. Bierbauer* Ward J. Larson* James R. Morrison* Karl A. Scheld* Harry S. Schultz* Bruce L. Smyth* George W. Cloos Robert P. Cornelisen LeRoy A. Davis F. S. Dominick Franklin D. Dreyer Rudolph W. Dybeck Joseph G. Kvasnicka Richard A. Moffatt William T. Newport Dorothy M. Nichols Louis J. Puro William Rooney R. M. Scheider Roby L. Sloan Carl E. Vander Wilt Eugene J. Wagner Allen G. Wolkey William C. Conrad Ronald Zile
St. Louis	Darryl R. Francis Eugene A. Leonard	Anatol B. Balbach* D. W. Moriarty, Jr.* F. G. Russell, Jr.* Charles E. Silva* Ruth A. Bryant J. P. Garbarini W. W. Gilmore James R. Kennedy John F. Otting, Jr. Harold E. Uthoff
Little Rock Louisville Memphis		John F. Breen Donald L. Henry* L. Terry Britt

For notes see p. 440.

F.R. BANKS AND BRANCHES—Continued

PRESIDENTS AND VICE PRESIDENTS—Continued

Federal Reserve Bank or branch	President First Vice President	Vice Presidents
Minneapolis Helena	Bruce K. MacLaury Clement A. Van Nice	Thomas E. Gainor* J. A. MacDonald* F. J. Cramer Lester G. Gable D. R. Hellweg Clarence W. Nelson R. W. Worcester John D. Johnson Roland D. Graham* Melvin L. Burstein L. W. Fernelius Albert R. Hamilton David R. McDonald John P. Olin
Kansas City.. Denver Oklahoma City Omaha	George H. Clay John T. Boysen	W. T. Billington* Raymond J. Doll* James R. Bowen Joseph R. Euans Wayne W. Martin M. L. Mothersead Robert E. Thomas J. David Hamilton* H. R. Czerwinski* James R. Guffey* Thomas E. Davis Cecil B. Foley G. H. Miller, Jr. Sheldon W. Stahl John F. Zoellner William G. Evans Robert D. Hamilton
Dallas El Paso Houston San Antonio	Ernest T. Baughman T. W. Plant	Robert H. Boykin* Joseph E. Burns Leon W. Cowan C. J. Pickering Harry E. Robinson E. W. Vorlop, Jr. Fredric W. Reed James L. Cauthen* Carl H. Moore Tony J. Salvaggio* G. C. Cochran, III Ralph T. Green W. M. Pritchett Thomas R. Sullivan
San Francisco.. Los Angeles Portland Salt Lake City Seattle	John J. Balles John B. Williams	John J. Carson* Gerald R. Kelly* Kent O. Sims* Richard T. Griffith Warren H. Hutchins Thomas E. Judge Rix Maurer, Jr. Wilhelmine VonTurk Richard C. Dunn* Angelo S. Carella A. Grant Holman James J. Curran Wesley G. DeVries* Donald V. Masten* Robert C. Dietz Gordon Hammond Henry B. Jamison Michael W. Keran Louis E. Reilly Claude Woessner, Jr. James M. Davis

*Indicates Senior Vice President.
†Indicates Executive Vice President.
‡Culpeper Center not considered a branch.

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 18, 1974, Mr. Frank E. Morris and Mr. David P. Eastburn, Presidents of the Federal Reserve Banks of Boston and Philadelphia, were elected Chairman and Vice Chairman, respectively, for the forthcoming Conference year, ending with the March 1975 meeting. At the meeting on March 19, 1975, Mr. Eastburn and Mr. Robert P. Mayo, President of the Federal Reserve Bank of Chicago, were elected Chairman and Vice Chairman, respectively, for the remainder of the calendar year, ending with the December 1975 meeting.

At the March 1974 meeting, Mr. Herbert F. Wass, and Mr. Peter M. DiPlacido, of the Federal Reserve Banks of Boston and Philadelphia, were appointed Secretary and Assistant Secretary, respectively. At the March 1975 meeting, Mr. DiPlacido and Ms. Marie B. Reich of the Federal Reserve Bank of Chicago, were appointed Secretary and Assistant Secretary, respectively, for the remainder of the calendar year, ending with the December 1975 meeting.

CONFERENCE OF FIRST VICE PRESIDENTS

The Conference of First Vice Presidents of the Federal Reserve Banks was organized in 1969 to meet from time to time, primarily for the consideration of operational matters. On May 8, 1974, Mr. James A. McIntosh, First Vice President of the Federal Reserve Bank of Boston, was elected as Chairman, and Mr. Mark H. Willes, First Vice President of the Federal Reserve Bank of Philadelphia, as Vice Chairman of the Conference. Mr. Herbert F. Wass and Mr. Peter M. DiPlacido were appointed Secretary and Assistant Secretary, respectively.

On April 30, 1975, the Conference elected Mr. Willes as Chairman and Mr. Daniel M. Doyle, First Vice President of the Federal Reserve Bank of Chicago, as Vice Chairman; and appointed Mr. DiPlacido and Ms. Marie B. Reich, as Secretary and Assistant Secretary, respectively, for the remainder of the calendar year.

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