

## Federal Reserve System Policy Statement

On September 1, 1966, the Federal Reserve System issued the following statement:

It is the view of the Federal Reserve System that orderly bank credit expansion is appropriate in today's economy. However, that expansion should be moderate enough to help insure that spending—and particularly that financed by bank credit—does not exceed the bounds that can be accommodated by the Nation's growing physical resources. An excessive expansion of bank credits would aggravate inflationary pressures that are already visible.

While the growth of total bank credit and total bank lending has moderated somewhat as compared with last year, total bank loans plus investments have grown at an annual rate of over 8 per cent during the first eight months of this year, and total bank loans at a rate of over 12 per cent. Meanwhile, bank lending to business has increased at an annual rate of about 20 per cent.

It is recognized that business demands for bank credit have been particularly intense. While such credit requests often appear justifiable when looked at individually, the aggregate total of credit-financed business spending has tended towards unsustainable levels and has added appreciably to current inflationary pressures. Furthermore, such exceedingly rapid business loan expansion is being financed in part by liquidation of other banking assets and by curtailment of other lending in ways that could contribute to disorderly conditions in other credit markets.

The System believes that the national economic interest would be better served by a slower rate of expansion of bank loans to business within the context of moderate overall money and credit growth. Further substantial adjustments through bank liquidation of municipal securities or other investments would add to pressures on financial markets. Hence, the System believes that a greater share of member

bank adjustments should take the form of moderation in the rate of expansion of loans, and particularly business loans.

Accordingly, this objective will be kept in mind by the Federal Reserve Banks in their extensions of credit to member banks through the discount window. Member banks will be expected to cooperate in the System's efforts to hold down the rate of business loan expansion—apart from normal seasonal needs—and to use the discount facilities of the Reserve Banks in a manner consistent with these efforts. It is recognized that banks adjusting their positions through loan curtailment may at times need a longer period of discount accommodation than would be required for the disposition of securities.

This program is in conformity with the provision in section 201.0, paragraph (e), of the Board's Regulation A governing lending to member banks: "In considering a request for credit accommodation, each Federal Reserve Bank gives due regard to the purpose of the credit and to its probable effects upon the maintenance of sound credit conditions, both as to the individual institution and the economy generally. . . ."

Federal Reserve credit assistance to member banks to meet appropriate seasonal or emergency needs, including those resulting from shrinkages of deposits or of other sources of funds, will continue to be available as in the past.

A slower rate of business loan expansion is in the interest of the entire banking system and of the economy as a whole. All banks should be aware of this consideration, whether or not they need to borrow from the Federal Reserve. Management of bank resources in accordance with the principles outlined above can make a constructive contribution to sustained economic prosperity, and the Federal Reserve System is confident that the banks will give their wholehearted support to this effort.