

having a maturity of 30 days or more.⁵⁸ The latter action was to have serious repercussions on the savings institutions in 1966, a subject beyond the purview of this study.

A member of the Federal Reserve Board, J. Dewey Daane, explained shortly afterwards that the actions were taken because of "increasing evidence that aggregate demands were rising at an unexpectedly rapid pace and absorbing the remaining margin of unutilized capacity" of the national economy. He specifically noted that "over the summer, a step-up had been announced in the United States' participation in Vietnam, presaging on acceleration in defense outlays."⁵⁹

The Fed's action was sharply criticized at the time. Some Administration spokesmen contended that the Board should have waited until the January 1966 Presidential messages which would indicate both the expected future level of military spending and the degree of restraint in its fiscal policy. At least two members of the Board itself, Governors George W. Mitchell and Sherman J. Maisel, appeared to agree with the criticism in public testimony before the Joint Economic Committee in December 1965.⁶⁰ Some Administration reaction was more general. Secretary of Labor W. Willard Wirtz stated, "There can be no tolerance for the suggestion that expansion of the economy must be slowed down, by increasing interest rates or in any other way, while there is still so much to be done."⁶¹

At first, monetary policy was only mildly restraining. Member bank reserves continued rising, reaching a peak of \$21.7 billion in April 1966, compared to \$20.7 billion during the preceding Fall. Monetary policy tightened further in the Spring of 1966, with the total of member bank reserves remaining at the April figure through the middle of the year. The increased financial tightness also showed up in the money supply, which reached a peak of \$171 billion in April and then declined, irregularly, to a low of \$169 billion in November.

In the Summer and Fall of 1966, the Federal Reserve System took additional steps to slow bank lending. These included the unusual letter of September 1, requesting commercial banks to limit their loans to business. The letter indicated that the discount windows at the Federal Reserve Banks were open to banks conforming to these guidelines.

Other measures were taken to limit the ability of the commercial banks to compete for time deposits, including increasing reserve requirements against these deposits of over \$5 million from 4 percent to 5 percent in July and to 6 percent in September 1966. By the end of September it appeared that the peak monetary stringency had passed. Most interest rates declined somewhat and bank reserves rose again. Late in December 1966, the monetary authorities rescinded their September 1 letter, once again encouraging banks to lend in their customary fashion.⁶²

In September 1966, the President proposed the suspension of the 7 percent investment tax credit and of accelerated depreciation on commercial and industrial buildings for a period of 16 months. The tax measure was passed, with some modifications, in late October 1966.

The January 1967 Budget Message recommended a general and temporary six percent increase in individual and corporate income tax rates, effective July 1, 1967. However, the recommendation was made conditional upon a later examination of economic developments.⁶³ In March 1967, the President requested the Congress to restore the 7 percent investment tax credit which had been suspended in the Fall of 1966 as an anti-inflationary move.⁶⁴ Apparently, the worst of the inflationary pressures resulting from the Vietnam buildup were over, barring another major escalation.

⁵⁸ Press Release of the Board of Governors of the Federal Reserve System, reprinted in *Recent Federal Reserve Action and Economic Policy Coordination*, Hearings before the Joint Economic Committee, Congress of the United States, Part 1, December 13 and 14, 1965, pp. 13-14.

⁵⁹ J. Dewey Daane, "A Review of Recent Fed Actions," *Banking*, December 1966 (reprint, p. 1).

⁶⁰ Cf. *Recent Federal Reserve Action and Economic Policy Coordination*, pp. 21-34.

⁶¹ "Wirtz Criticizes Credit Tightening—Attack Strongest Yet," *Washington Post*, December 2, 1965.

⁶² Cf. "The Great Squeeze—Lessons for the Banking System," *Business in Brief*, Chase Manhattan Bank, February 1967.

⁶³ *1968 Budget*, p. 9.

⁶⁴ "Johnson Asks Restoring of 7% Investment Tax Credit, Cites Signs Capital Goods Industry Has 'Calmed Down'," *Wall Street Journal*, March 10, 1967, p. 3.