FORTY-FOURTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1957

Digest of Principal Federal Reserve Policy Actions, 1957

Period	Action	Purpose of action
January–June	Reduced holding of U. S. Government securities by about $1.8 billion. Member bank borrowings increased from an average of $400 million in January to $1 billion in June.	To offset the effect on reserves of seasonal factors and the sale of $600 million of gold to the United States Treasury by the International Monetary Fund, and to exert pressure on bank reserve positions by bringing about a higher level of member bank borrowings.
August	Raised discount rates from 3 to 3½ per cent at all Reserve Banks.	To bring discount rates into closer alignment with open market money rates and maintain the restrictive effect of member bank borrowing.
July–Mid-October	Bought and subsequently sold small amounts of U. S. Government securities at various times. Member bank borrowings remained at or near average of $1 billion.	To meet changing reserve needs and at the same time maintain continuing pressure on bank reserve positions.
Mid-October–December	System holdings of U. S. Government securities increased by $1 billion, including substantial amounts of securities held under repurchase agreement. Member bank borrowings declined to an average of less than $750 million.	To increase the availability of bank reserves and thereby cushion adjustments and mitigate recessionary tendencies in the economy.
November–December	Reduced discount rates from 3½ to 3 per cent at all Reserve Banks.	To reduce the cost of borrowing from the Reserve Banks and eliminate any undue restraint on bank borrowing in view of the decline in business activity and evidences of economic recession.

RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE

The policy directive of the Federal Open Market Committee in effect at the beginning of 1957 was the directive that had been approved at the meetings on November 27 and December 10, 1956. This directive, which placed emphasis on restraining inflationary developments and which was 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, read as follows:

(1) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System open market account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to restraining inflationary developments in the interest of sustainable economic growth, while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions, and (c) to the practical administration of the account; provided that the aggregate amount of securities held in the System account (including commitments for the purchase or sale of securities for the account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than $1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (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 total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate $500 million;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

able evidence suggested that plant and equipment expenditures by manufacturing industries were in the process of leveling off. Unfilled orders in durable goods industries had changed little since August, in contrast to the earlier situation of a mounting order backlog. Business inventories had risen through 1956 at about the same rate as in 1955. This increase in inventories had been greater than the rise in sales, so that inventory-sales ratios in manufacturing were currently higher than a year earlier. The labor market was still strong. Government spending for goods and services had been rising steadily, and further steady rise seemed to be in prospect. Consumer incomes had risen further and spending at retail in January had been at about the record level relative to the season of December. Business optimism was running higher than in the third quarter of 1956—a feeling that appeared to be shared by most manufacturing and retail groups. Demand for long-term business funds continued very strong.

From the survey of economic data available, there was evidence of some slackening in the momentum of inflationary tendencies, but as yet there was no clear-cut evidence of a combination of forces that would halt the advance in the foreseeable future. The financial problem of the economy continued to be that of aggregate demand pressing against aggregate supply. Credit developments in recent weeks had continued to indicate a relaxation of pressures, with rapid bank loan liquidation, less strain on bank reserve positions, a sharp decline in money rates, and an improved tone in the bond market which had permitted sale of a large volume of new issues of securities at declining yields. This easing of inflationary pressures was the goal toward which monetary forces had been directed. It was too early to tell, however, whether this was but a temporary lull, the beginning of a downturn, or the attainment of high-level stability. While it seemed clear that it would be unnecessary and inappropriate to have more stringent restraint at this time, there appeared to be confidence in the vitality of the economy, and this suggested that credit policy should not help to promote a new bulge in activity. The Committee's conclusion was that this was a time calling for continuation of the status quo, and on that basis no change in the policy directive was deemed necessary or desirable.

March 5, 1957

1. Review of continuing authorities or statements of policy.

At this, the first meeting of the Federal open Market Committee after the new members elected by the Federal Reserve Banks for the year beginning March 1, 1957 had assumed their duties, the Committee reviewed and reaffirmed all continuing statements of operating policy and specific authorities for operations which were in effect immediately prior to this meeting. Among the continuing statements of policy that were renewed were the following:

a. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

b. Operations for the System account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

c. Transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

The action renewing these three statements was taken by unanimous vote, pending further study of these and related matters.

Votes for these actions: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Williams. Votes against these actions: None.

2. Authority to effect transactions in System account.

The policy directive of the Federal Open Market Committee was changed at this meeting for the first time since the meeting on January 8, 1957 by adopting wording for clause (b) of paragraph (1) to provide that, among other things, open market transactions would be with a view "to restraining inflationary developments in the interest of sustainable economic growth while recognizing uncertainties in the business outlook, the financial markets, and the international situation." This wording superseded that in effect since January 8, which had called for operations with a view "to restraining inflationary developments in the interest of sustainable economic growth, while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation."

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Williams. Votes against this action: None.

This change in wording of clause (b) of the Committee's directive was not an indication of a shift in direction of policy but was designed to emphasize the factor of uncertainty in the current business outlook. The general direction of policy continued to be one of restraining inflationary developments.

In its review of conditions, the Committee found evidence of the slowing down of expansionary forces in many sectors of the private economy but no indication that a pronounced downturn had begun. Rather, there were many underlying forces tending to hold activity at a high level. In contrast to the indications of balance in the private economy, the governmental sectors were showing some signs of strain. State and local government expenditures continued to increase and those of the Federal Government also were rising. It was apparent that the Federal budget surplus would be considerably less during the current year than last, and in addition large cash drains on the Treasury were to be expected for non-budgetary payments such as savings bond redemptions, aid to the mortgage market, drawings by international agencies, and attrition on refundings of marketable securities. There had been some easing in credit markets during January, partly because of funds made available by the Treasury and because bank loans had declined as increased funds had become available for new capital issues. Increased financing strains had developed for the Treasury, and it had had to go to the short-term market for new funds at a time when a reduction in

Treasury debt had been expected. The apparent slackening in demand for private credit, if accompanied by increased Government borrowing, might not present an appropriate occasion for relaxation of restraints on credit in general, since it seemed essential that the Treasury borrow as much as possible from savings or that any Treasury borrowing from banks be largely offset by curtailment in bank credit supplied to private borrowing. It was suggested that the only way in which the economy would continue to have growth without inflation under existing conditions was by reducing spending and increasing saving.

While it was apparent that a sidewise movement was taking place in the economy, there was uncertainty as to which way the economy would go. In any event, however, since the economy's upward momentum had definitely slackened and since the rise in finished goods prices seemed likely to level off in the near future, it was not believed appropriate that overt action be taken toward increasing credit restraint, although maintenance of about the degree of restraint that had existed for some time seemed to be called for. Thus, the Committee sought to continue about the same pressure on credit expansion that had been intended by the actions taken at the last several meetings, and in modifying the wording of the policy clause of the directive it was simply bringing into the picture a specific reference to the business outlook which had not been mentioned in the previous wording.

March 26, 1957

Authority to effect transactions in System account.

The policy directive calling for a continuation of restraint on inflationary developments was renewed without change at this meeting of the Federal Open Market Committee.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Robertson, Shepardson, Szymczak, and Williams. Votes against this action: None.

The Committee's review of the economic situation did not indicate a material change since the preceding meeting but rather showed a sidewise movement of activity at inflated price levels.