

FORTY-FIFTH
ANNUAL REPORT
of the
BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR
1958

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1958

Period	Action	Purpose of action
January	Limited net reduction in holdings of U. S. Government securities to \$900 million, more than half of which represented securities held under repurchase agreement at end of year. Member bank borrowings declined to an average of \$450 million.	To ease reserve positions by absorbing only part of the reserves made available by seasonal factors affecting bank reserve positions.
January	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To recognize that dangers of excessive use of credit for stock market speculation had subsided, since stock prices and the volume of credit in the stock market had declined to levels near or below those prevailing at the time of the previous increase in requirements.
January-February	Reduced discount rates from 3 to 2½ per cent at 11 Reserve Banks.	To reduce further the cost of borrowing from the Reserve Banks and increase further the availability of bank reserves in order to encourage bank credit and monetary expansion conducive to resumed growth in economic activity.
February	Reduced reserve requirements on demand deposits from 20 to 19½ per cent at central reserve city banks; from 18 to 17½ per cent at reserve city banks; and from 12 to 11½ per cent at country banks, thus freeing an estimated \$500 million of reserves.	
March	Reduced discount rates from 2¾ to 2¼ per cent at 11 Reserve Banks and from 3 to 2¾ per cent at one Reserve Bank.	
March	Reduced reserve requirements on demand deposits from 19½ to 19 per cent at central reserve city banks; from 17½ to 17 per cent at reserve city banks; and from 11½ to 11 per cent at country banks, thus freeing an additional \$500 million of reserves.	
February-Mid-April	Purchased about \$450 million of U. S. Government securities. Member bank borrowings declined further to an average of about \$180 million.	
April	Reduced reserve requirements on demand deposits from 19 to 18 per cent (in two stages) at central reserve city banks and from 17 to 16½ per cent at reserve city banks, thus freeing a total of about \$450 million of reserves.	To supplement previous actions to encourage bank credit and monetary expansion and resumed growth in economic activity and to offset current gold outflow.
April-May	Reduced discount rates from 2¼ to 1¾ per cent at all Reserve Banks.	
Mid-April-June	Purchased outright about \$1.7 billion net of U. S. Government securities. Member bank borrowings declined further to an average of \$100 million at the end of June.	

Period	Action	Purpose of action
July-early August	Bought a small volume of U. S. Government securities other than short-term issues and a large amount of securities involved in a Treasury refinancing. Promptly thereafter reduced Treasury bill holdings substantially.	To correct disorderly conditions in the Government securities market, to facilitate the Treasury refinancing, and then to recapture the bank reserves created by the earlier securities purchases.
August	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities. The volume of credit in the stock market and stock prices were advancing sharply and were at or near the highest levels since World War II.
August-early September	Made little change in holdings of U. S. Government securities. Member bank borrowings increased to an average of more than \$400 million in early September.	Open market action not taken to offset drains on reserve funds reflecting bank credit and monetary expansion resulting from seasonal factors and the sharp upturn in economic activity.
August-September	Raised discount rates from 1¾ to 2 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with market rates and to increase the cost of borrowing by individual banks from the Reserve Banks in case of increasing demands for bank credit.
October	Raised margin requirements on loans for purchasing or carrying listed securities from 70 to 90 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities.
Late October-early November	Raised discount rates from 2 to 2½ per cent at all Reserve Banks.	To bring discount rates into closer alignment with open market rates.
Mid-November-December	Increased system holdings of U. S. Government securities about \$900 million, including securities held under repurchase agreement. Member bank borrowings rose to average of \$560 million in December.	To meet part of reserve needs associated with seasonal factors and a further moderate outflow of gold.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Shepardson, and Szymczak. Mr. Vardaman, who was not present at the meeting, when informed of the action stated that he concurred. Votes against this action: Messrs. Mills and Robertson.

Authority was granted to the Federal Reserve Bank of New York to purchase for the System Open Market Account in the open market, without limitation, Government securities in addition to short-term Government securities.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mills, Robertson, Shepardson and Szymczak. Mr. Vardaman, who was not present at the meeting, when informed of the action stated that he concurred. Votes against this action: none.

The action set forth in the first paragraph of this entry was taken at a meeting of the Federal Open Market Committee, held by telephone conference in the early afternoon of July 18, and was based on a report by the Manager of the System Open Market Account that a condition was developing in the Government securities market which, in his judgment, was close to a disorderly condition although it had not yet actually reached that point. His recommendation was that purchases of securities during the afternoon of \$50 million or less be authorized for the purpose of steadying the market. After considering the recommendation in the light of the existing conditions in the market and of the Committee's continuing operating policy providing that open market operations shall be "solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets)," the Committee authorized the purchase of Government securities as indicated.

Messrs. Mills and Robertson voted against this authorization on the ground that at this time no one contended the market was disorderly and therefore there was no basis for intervention. In addition, they felt that the proposal to enter the market on a limited basis (as distinguished from action sufficiently massive to do the job) was unwise and would do very little to restore confidence in the market. Furthermore, they felt that if later there should be a disorderly market, the correction of it would have been seriously handicapped by

temporizing and fluttering around the edges of the market with minor purchases at this time.

As the System Account was starting to put this authorization into effect, further developments in the market caused the Manager of the Account to report (again by telephone conference) that he would now have to call the market disorderly. After consideration of the Manager's detailed report covering these developments, the Committee approved by unanimous vote the action set forth in the second paragraph of this entry, which authorized the purchase of Government securities in the open market, without limitation. It was understood that the authorization was made for the purpose of correcting a disorderly market and included the purchase of "rights" and when-issued securities, purchase of which was precluded during a period of Treasury financing under one of the Committee's continuing policies, last renewed at the meeting on March 4, 1958. In taking this action, the Committee also authorized the immediate release of an announcement reading as follows:

In view of conditions in the United States Government securities market, the Federal Open Market Committee has instructed the Manager of the Open Market Account to purchase Government securities in addition to short-term Government securities.

July 23, 1958

Authority to effect transactions in System Account.

The Committee authorized the Federal Reserve Bank of New York to engage in a transaction that would include an offsetting purchase and sale of securities in the amount of \$30 million for the purpose of altering the maturity pattern of the System's portfolio.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

The purpose of this action, taken during a telephone conference meeting, was to permit the System Account to complete a specific transaction for a foreign account in a manner that would result in adding to the amount of System Account holdings of Treasury bills that would mature on July 31, 1959. Thus, the Committee would be

in position to let these bills run off at that time and to help absorb the large volume of reserves that would be released to the market on August 1 because of purchases for System Account on a when-issued basis of new Treasury certificates due to be issued on that date. These purchases had been made under authorization by the Committee on July 18 of purchases for the purpose of correcting a disorderly market.

The foregoing action was recognized as a departure from the Committee rule, in effect since December 1953, prohibiting "swap" transactions. It was authorized only because of the unusual circumstances of the past few days and because it was deemed desirable to have as large a runoff of bills as possible within the next few days when large amounts of reserves would be released to the market.

July 24, 1958

Authority to effect transactions in System Account.

The Committee terminated the authority given to the Federal Reserve Bank of New York on July 18, 1958 to purchase for the System Open Market Account in the open market, without limitation, Government securities in addition to short-term Government securities.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

The Government securities market had steadied in the period since July 18, when, because of disorderly conditions then existing in the market, the Committee had authorized the purchase of Government securities in addition to short-term securities. Accordingly, at this telephone conference meeting, the July 18 authorization was terminated with the understanding that, if conditions in the market should seem to require it, another meeting of the Federal Open Market Committee would be called to consider what, if any, further action should be taken.

July 29, 1958

Authority to effect transactions in System Account.

The wording of the Committee's directive was changed at this meeting to delete the clause that had been in effect since March 4, 1958, and which called for operations that would contribute further by monetary ease to resumption of stable growth of the economy, and to replace that clause with an instruction to the Federal Reserve Bank of New York that operations for the System Account were to be with a view, among other things, to recapturing redundant reserves.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, and Vardaman. Votes against this action: none.

At this meeting reports of economic developments made it reasonably clear that April had marked the recession trough and May the first month of revival in economic activity. Evidences accumulating for June and July confirmed the broad range of increased industrial output that had been reported at the July 8 meeting of the Committee. In addition to the statistical data, indications of improvement in business sentiment suggested that an uptrend in economic activity might now be under way. The growing evidences of business improvement, together with the possibility that the degree of monetary ease prevailing in recent months might produce a very rapid expansion in bank credit and the money supply, raised the question whether the Committee should consider some modification of the degree of ease that had developed in recent months.

During the two weeks preceding this meeting, System operations had been largely concerned with correcting disorderly developments in the Government securities market, rather than with current economic and credit needs. This was in accordance with the authorization given by the Committee at a special meeting on July 18 to purchase Government securities without limitation for the purpose of correcting a disorderly market.

In the five-day period from July 18 to July 23, the System Account had purchased \$1.2 billion of securities, largely when-issued securities involved in the Treasury financing, but also a small volume of other notes and bonds. These purchases had been made under the