

FORTY-SIXTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR
1959

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1959

Period	Action	Purpose of action
January–February	Reduced holdings of U.S. Government securities in January by about \$1 billion. Member bank borrowings at the Federal Reserve Banks continued at an average of \$500 million or more.	To offset the seasonal inflow of reserve funds resulting mainly from the post-holiday return flow of currency from circulation and thus maintain restraint on credit expansion.
March–Mid-July	Increased System holdings of U.S. Government securities by about \$1.1 billion. Member bank borrowings rose further to an average of \$1.0 billion in mid-July.	To offset partially the absorption of reserves due mainly to a decline of \$780 million in gold stock and an increase of about \$1 billion in currency in circulation and to keep credit expansion under restraint.
March	Raised discount rates from 2½ to 3 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with the rise in market rates resulting from vigorous credit demands and to restrain undue credit expansion.
May–June	Raised discount rates from 3 to 3½ per cent at all Reserve Banks.	
Mid-July–October	Bought and subsequently sold small amounts of U.S. Government securities around periods of Treasury financing and the 3rd quarter tax date. Member bank borrowings averaged about \$900 million with temporary increases above \$1 billion around Treasury financing and tax payment dates.	To supply special reserve needs for only limited periods in recognition of pressures in money, credit, and capital markets resulting from vigorous public and private demand for credit.
September	Raised discount rates from 3½ to 4 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with the rise in market rates resulting from vigorous credit demands and to restrain undue credit expansion.
November–December	Increased System holdings of U.S. Government securities by about \$800 million through mid-December and then reduced holdings somewhat. Authorized member banks to count about \$300 million of their vault cash as required reserves through amendment to Regulation D, effective December 1, under new legislation. Average borrowings rose to about \$1 billion in the last half of December.	To meet part of the temporary end-of-year needs of banks for reserve funds but at the same time to keep bank reserve positions under pressure.

RECORD OF POLICY ACTIONS

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 upon 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 the actions of the Board and the Committee in each instance, and that it shall include in its Annual Report to the Congress a full account of such actions.

In the pages that follow, there is an entry with respect to the policy approved by the Committee at each of the 18 meetings held during the calendar year 1959, which record includes the votes on the policy decisions as well as a resume of the basis for the decisions, as reflected by the minutes of the Committee's meetings. In some cases policy decisions were by unanimous vote, while in others a dissent was recorded. As this record shows, the fact that a decision for a general policy was by large majority or even by unanimous vote does not necessarily indicate that all members of the Committee were equally agreed as to the reasons for a particular decision or as to the precise operations in the open market that were called for to implement the general policy. These shades of opinion, fully expressed at meetings, serve to provide the Manager of the System Open Market Account (who attends the meetings of the Committee) with guides to be used in the conduct of open market operations within the framework of the policy directive adopted.

Set forth below is the policy directive of the Federal Open Market Committee that was in effect at the beginning of 1959, the directive having been approved in this form at the meeting on December 16, 1958. This directive 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. It directed that Bank:

(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 fostering conditions in the money market conducive to sustainable economic growth and stability, 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.

January 6, 1959

Authority to effect transactions in System Account.

The Federal Open Market Committee's directive was approved in the same form that had been adopted at the last meeting of the Committee in 1958 (December 16), calling for a policy of fostering conditions in the money market conducive to sustainable economic growth and stability.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mills, Robertson, Szymczak, and Deming. *Votes against this action:* None.

Presentation and consideration of a detailed review of the

regional and national economic and financial situation preceded the Committee's decision to renew the existing policy directive. There was general agreement that the Committee should attempt to maintain about the same degree of restraint on credit expansion during the immediate future that had applied in the recent past. However, there was a considerable body of sentiment that favored resolving doubts in the operation of the System Open Market Account on the side of restricting, rather than easing, the reserve positions of banks.

This policy decision was made against an economic backdrop of maturing recovery with output back or nearly back to prerecession levels, meaning that problems of sustainable growth had now replaced problems of recession. The failure of commodity prices to decline significantly during the recession, the speed and generality of the economic recovery, the persistent rise in common stock prices, the pace of monetary expansion early in 1958, and the size of the current Federal deficit suggested the likelihood of the development of speculative or otherwise unsustainable elements in the further expansion of activity. This posed a key question for Federal Reserve policy as to what rate of monetary expansion would contribute best to the sustainability, without inflation, of prospective economic expansion.

It was noted that the money market had functioned more smoothly in the closing weeks of 1958 than in other year-end periods. Treasury bill rates had reached a peak on December 16 but since then had moved downward. As for bank credit, recent statistics had shown greater expansion than had been apparent a month or two earlier. This was true particularly with respect to a larger than expected growth in loans and investments at country banks, bringing the increase in loans and investments of all commercial banks to around \$13 billion for the first eleven months of 1958.

Other factors to which the Committee paid close attention in reaching its decision as to the policy directive included the forthcoming cash and refunding operations of the Treasury, the need for the System to absorb the seasonal return flow of currency into the banking system to prevent the expansion in

the reserve base that otherwise would occur, and the continued evidence of speculative fever in the stock market. At the same time, concern was expressed over the persistence of relatively large unemployment.

The conclusion of the Committee that the degree of restraint on credit expansion in the near future should be about the same as in the immediate past, but that any deviation should be on the side of restraint, reflected the foregoing considerations.

January 27, 1959

Authority to effect transactions in System Account.

No change was made at this meeting in the Open Market Committee's directive, thus continuing the policy of conducting operations in the System Open Market Account with a view, among other things, to fostering conditions in the money market conducive to sustainable economic growth and stability.

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

In reaching its decision as to policy, the Committee gave particular attention to the fact that the monetary basis for continued economic expansion had already largely been established and that forces mostly outside the area of bank credit were likely to determine whether demands for consumption and investment would be of such magnitude and nature as to reduce the volume of unemployment, whether there would be sustainable growth, whether persistent pressures on prices would produce creeping inflation, or whether speculative commitments would create a bubble on a boom that would burst at an early stage.

Analysis of current economic trends led to the conclusion that further recovery to reasonably full utilization of resources and then continued growth at a sustainable rate would depend

upon individual decisions with respect to pricing and buying and investment and saving. It appeared that additional stimulants through fiscal or credit policies were not now needed. In fact, the forces already at work might induce commitments of a speculative nature, or lead to pricing policies that would first contribute to inflation but ultimately discourage buying. Consequently, it was the view of the Committee that the current degree of restraint on bank reserves was appropriate under existing circumstances and should be continued, especially in the light of the forthcoming Treasury refunding which indicated the desirability of no change in the general state of the money market until a reasonable time following completion of this Treasury financing.

The Committee members and the other Reserve Bank presidents in attendance at this meeting also discussed the level of the discount rate at the Reserve Banks, then 2½ per cent. Although they recognized that that rate was fixed by the directors of the Federal Reserve Banks subject to review and determination by the Board of Governors, there was a fairly unanimous opinion that no action to change the rate would be desirable prior to completion of the Treasury's February refunding.

February 10, 1959

Authority to effect transactions in System Account.

The Committee again renewed without change its directive that set forth a policy of fostering conditions in the money market conducive to sustainable economic growth and stability.

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

Careful consideration by the Committee of business and financial developments preceded its decision to renew its existing policy directive. Widespread but small further increases in industrial production were reported, and prices for some stra-