

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

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-

tegic industrial materials had risen further. On the whole, business recovery appeared to be continuing at a moderate pace, although unemployment had risen about seasonally during January.

In reaching its decision to make no change in policy and to maintain the same degree of pressure on bank reserve positions that had been exerted recently, the Committee took particular account of the fact that the large and almost continuous schedule of Treasury borrowings, together with potentially large private credit demands, showed every likelihood of bringing the capital markets increasingly under pressure, thus tightening credit conditions even without any aggressive System effort at restraint. The Committee also considered the prospect that the upward trend of interest rates caused by such borrowing might be sharper than would be appropriate for the general state of business activity. Nevertheless, the view was expressed by a few members that any doubts in arranging transactions for the Open Market Account, pursuant to the terms of the directive issued at this meeting, should be resolved on the side of restraint rather than of ease.

There was further discussion at this meeting of the Reserve Bank discount rate level in relation to the open market policy being followed and to prevailing market rates. Several of those present expressed the opinion that action by the Reserve Bank directors to increase the discount rate level soon after the Treasury's large February refunding operation had been completed would be appropriate and consistent with current open market policy.

March 3, 1959

1. Review of continuing authorities or statements of policy.

This being the first meeting of the Federal Open Market Committee following election of new members by the Federal Reserve Banks for the year beginning March 1, 1959, and assumption by them of their duties, the Committee reviewed and reaffirmed all continuing statements of policy and authorities for operations. These included 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).

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, and Bryan. Votes against this action: None.

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.

Votes for this action: Messrs. Martin, Chairman, Allen, Balderston, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, and Bryan. Vote against this action: Mr. Hayes, Vice Chairman.

Mr. Hayes stated that he continued to have the same reservations as a year ago about the wording of this statement, which he would vote to approve if the qualifying phrase "as a general rule" were inserted after "shall" in the second and fourth lines.

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.

Votes for this action: Messrs. Martin, Chairman, Allen, Balderston, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, and Bryan. Vote against this action: Mr. Hayes, Vice Chairman.