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 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.

Mr. Hayes said that he would vote to approve this action if the word "solely" were deleted from the second line and "primarily" substituted therefor, and if the phrase "as a general rule" were inserted after "shall" in line three.

2. Authority to effect transactions in System Account.

No change was made at this meeting in the directive of the Committee, thus continuing the 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, Allen, Balderston, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, and Bryan. Votes against this action: None.

The state of economic activity appeared to be one of budding inflationary boom. The economy had now about attained the preceding cyclical high in industrial production, and it was exceeding the high in terms of aggregate output of goods and services. Business demands for fixed capital and for stock were expected to gain strength as expansion continued. The response of industrial prices to increasing demands had been at least as prompt and as strong thus far during 1959 as in the two preceding postwar expansions, with increases fairly widespread and encompassing finished products as well as materials.

Although this was the general picture, unemployment was still sizable at 6 per cent of the labor force. Further, the sharp rise that had taken place in the operating rate in the steel industry was believed to reflect to some extent precautionary buying against a possible strike, rather than a corresponding increase in final demands for steel products.

The financial situation suggested that there was adequate liquidity to finance further expansion and that under the circumstances further growth in the money supply might not be necessary for some time—at least not until there was evidence that unfulfilled monetary needs might be unduly retarding growth.

The foregoing considerations led the Committee to conclude that the policy directive should be continued without change, with the understanding as expressed by a majority of the Committee that about the same level of restraint should be maintained on bank reserves as at present and that any doubts on the part of the Account Management regarding transactions to be effected should be resolved on the side of restraint. However, a minority view was that any greater pressure than presently evidenced was unnecessary and might be unwise, and in fact that the occasional appearance of free reserves (excess reserves in excess of member bank borrowings from the Reserve Banks) could be psychologically desirable.

The members of the Open Market Committee and the other Federal Reserve Bank presidents who were in attendance at this meeting also discussed the level of the discount rate at the Federal Reserve Banks. A majority indicated the belief that the 2½ per cent rate was clearly out of line and that early adoption of a 3 per cent rate would be more appropriate.

March 24, 1959

Authority to effect transactions in System Account.

The Open Market Committee renewed without change its directive to the Federal Reserve Bank of New York, which specified that operations should be 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. Balderston, Chairman pro tem, Allen, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, Bryan, and Treiber. Votes against this action: None.

The Committee's decision to continue the policy directive in its existing form followed a review of national and regional business and credit conditions from which it appeared that economic activity was continuing its upward swing, with further gains noted in a number of the leading indices, including