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 index of industrial production. Prices of industrial materials had risen somewhat further, while prices of agricultural commodities had declined, and the average of all wholesale prices was fairly stable. The most recent statistics, for February, indicated that both employment and unemployment were little changed.

Since the March 3 meeting of the Committee, financial markets had absorbed with remarkably little disturbance the effects of an increase in Federal Reserve Bank discount rates from 2½ per cent to 3 per cent earlier this month, some tightening of bank reserve positions, the demands of the corporate tax and dividend payment period, and the announcement of a Treasury cash financing operation totalling $4 billion. The explanation of this relative calmness in money markets during a period of special pressures seemed to lie partly in the moderateness of current credit demands, but more largely in the general state of liquidity of the economy.

The consensus favored maintaining about the degree of restraint that had prevailed during the preceding three weeks, with the impending Treasury financing operation one factor that suggested no change in open market policy. During the discussion, one view was expressed that doubts arising in the conduct of open market operations should be resolved on the side of ease and that near-term System policy should be directed toward maintaining only sufficient pressure on reserves to aid the redistribution of the Treasury's new security offerings out of the underwriting commercial banks into permanent hands. However, most members of the Committee concluded that recent policy had been appropriate and should be continued.

April 14, 1959

Authority to effect transactions in System Account.

The policy directive calling for operations in the System Account with a view to fostering conditions in the money market conducive to sustainable economic growth and stability was again renewed.

Votes for this action: Messrs. Hayes, Vice Chairman, Balderston, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, Bryan, and Fulton. Votes against this action: None. Mr. King did not vote on this action.

A consideration of importance to the Committee in the determination of policy at this juncture was the situation of the Treasury. From the $4 billion cash financing operation that had been completed on April 1, there remained for the banks and dealers the task of distributing a large portion of their acquisitions to the investing public. In the offing were the Treasury's large May refunding and another cash financing operation, while holders of the 4 per cent notes of August 1961 had until the end of this month the option of deciding whether to turn in those notes by August 1, 1959, in lieu of holding them to maturity. In the Government securities market, a slow but steady deterioration of atmosphere had developed since the first of April, with nonbank demand for securities off substantially and buyers for commercial bank offerings of the Treasury's latest issues more difficult to locate.

Reflecting the heavy schedule of Treasury financing ahead and continued improvement in the business situation, there appeared to be a growing belief in the market that interest rates were likely to move higher. As to the business situation, recent data provided a record of general economic advance, with available statistics for March indicating advances in industrial production, housing starts, and personal income, along with continued accumulation of business inventories. A greater than seasonal rise in employment was reported, and creeping advance in average prices of industrial commodities was noted.

The consensus at this meeting in terms of policy for the three-week period ahead called for maintenance of about the same degree of restraint as had existed during the past three weeks. However, the mixture of views contributing to the consensus covered a rather wide spectrum of opinion. There were those who felt that the Treasury problem was a reason for moving cautiously and that a certain degree of caution might in any case be warranted by the lack of definite evidence of inflationary threats at the present time. There were also those who believed that the economy was reaching toward boom proportions and who concluded with only the greatest reluctance that the System should refrain from further restrictive measures because of the Treasury's financing program, while a small minority would have favored some probing in the market toward increased restraint. It was out of this mixture of views that there came agreement that the existing policy directive should be renewed without change and that operations in the immediate future should continue as nearly as practicable the existing degree of pressure against credit expansion.

May 5, 1959

Authority to effect transactions in System Account.

The decision of the Committee at this meeting was to renew without change the policy directive that called for operations with a view to fostering conditions in the money market conducive to sustainable economic growth and stability.

Votes for this action: Messrs. Balderston, Chairman pro tem, Deming, Erickson, King, Mills, Robertson, Shepardson, Szymczak, Bryan, Fulton, and Treiber. Votes against this action: None.

The Treasury being in the midst of a large refunding and cash financing operation, with the new securities to be issued the next week, the consensus at this meeting of the Federal Open Market Committee favored continuing the existing degree of restraint for an appropriate period following the Treasury financing. However, upon review of current business and financial data, it was the majority view that it would be desirable to move toward greater restraint as soon as feasible after the Treasury financing and that revision of the policy directive might be indicated at the next meeting of the Committee.

The economic report was one of strongly expanding de-

mand, rising productive activity, advancing prices at wholesale, and strongly optimistic business and financial expectations. Labor market data pointed to further strengthening of demands for manpower, and altogether the domestic expansion in process was suggestive of developing inflationary boom. Internationally, a pick-up of activity in key industrial countries and improvement in the balance-of-payments positions of material-supplying areas indicated that a general upturn in world output and trade was under way.

Pressures on financial markets had increased during April, apparently reflecting expanding monetary and credit demands incident to the continuing advance of business activity rather than limitations on the supply of credit. Demands on long-term capital markets had been moderate, but bank loans (particularly consumer instalment credit) had increased more than seasonally and banks also had been endeavoring to distribute Government securities taken on in the April 1 financing. Mortgage demands continued large and real estate loans at banks had increased more than at any time since 1955. The stock market had risen to new high levels and stock market credit continued to increase. Interest rates had continued to rise further. Reflecting these factors, member bank borrowings from Federal Reserve Banks had risen in recent weeks to an average of around $700 million.

Although the majority of the Committee agreed that it would be desirable to move towards greater restraint on credit expansion as soon as feasible after the current Treasury financing was completed, a minority point of view cautioned against a monetary policy that might defeat and finally counteract what could prove to be only normal economic growth by touching off a spiral of contractive credit forces. A specific danger cited was that undue restraint on the growth of the money supply could result in harmful consequences to the Government securities market if commercial banks were forced to liquidate unduly large amounts of securities in order to fulfill lending obligations to their customers.