Digest of Principal Federal Reserve Policy Actions, 1957

Period	Action	Purpose of action
January–June	Reduced holding of U. S. Government securities by about $1.8 billion. Member bank borrowings increased from an average of $400 million in January to $1 billion in June.	To offset the effect on reserves of seasonal factors and the sale of $600 million of gold to the United States Treasury by the International Monetary Fund, and to exert pressure on bank reserve positions by bringing about a higher level of member bank borrowings.
August	Raised discount rates from 3 to 3½ per cent at all Reserve Banks.	To bring discount rates into closer alignment with open market money rates and maintain the restrictive effect of member bank borrowing.
July–Mid-October	Bought and subsequently sold small amounts of U. S. Government securities at various times. Member bank borrowings remained at or near average of $1 billion.	To meet changing reserve needs and at the same time maintain continuing pressure on bank reserve positions.
Mid-October–December	System holdings of U. S. Government securities increased by $1 billion, including substantial amounts of securities held under repurchase agreement. Member bank borrowings declined to an average of less than $750 million.	To increase the availability of bank reserves and thereby cushion adjustments and mitigate recessionary tendencies in the economy.
November–December	Reduced discount rates from 3½ to 3 per cent at all Reserve Banks.	To reduce the cost of borrowing from the Reserve Banks and eliminate any undue restraint on bank borrowing in view of the decline in business activity and evidences of economic recession.

RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE

The policy directive of the Federal Open Market Committee in effect at the beginning of 1957 was the directive that had been approved at the meetings on November 27 and December 10, 1956. This directive, which placed emphasis on restraining inflationary developments and which 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, read as follows:

(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 restraining inflationary developments in the interest of sustainable economic growth, while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions, 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;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

The Federal Open Market Committee met 18 times during 1957, and the policy actions taken at those meetings are reported on the following pages by date of meeting, together with the record of votes on each such action. In addition to these meetings, the Committee held a telephone conference of the available members on April 24, 1957 for the purpose of discussing informally the instructions that had been issued at the preceding meeting. No policy actions were proposed or taken during that discussion.

January 8, 1957

1. Authority to effect transactions in System account.

The Committee changed clause (b) of the first paragraph of its directive to provide for open market operations with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation." Since November 27, 1956 this clause had read "to restraining inflationary developments in the interest of sustainable economic growth while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions."

> *Votes for this action:* Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, and Szymczak. *Votes against this action:* None.

The domestic economic situation, as of this meeting, was summarized as strong and still on the inflationary side; while abroad it was partly slackening and partly steady in Europe and inflationary outside Europe. Commodity prices were continuing to tend upward, industrial production had risen slightly in December from the November level and a further rise appeared possible for January, construction activity had been holding close to record levels, total employment was close to the highest levels reported for this season of the year, business inventories had shown a spurt in November (the latest month for which data were available), new orders in durable manufacturing in November exceeded slightly previous record levels, and personal income in November had been 6 per

cent ahead of a year earlier. Department store sales in November and December had shown similar gains over the previous year. The full year 1956 represented close to capacity performance for the domestic economy, and this had taken place while the rate of increase in the privately held monetary stock had declined, the money supply having averaged only 1.3 per cent greater in the course of 1956 than in 1955. Although there had been a more active use of the existing money stock, the cumulative effects of the slower growth in the privately held money stock had operated to retard the further expansion of aggregate demand for goods and services in relation to output and to damp down inflationary pressures.

This business picture showed essentially no change since the December 10 meeting of the Committee, although there were intimations that the upward thrust of the economy might be losing some of its momentum. System open market operations during the closing weeks of 1956, as called for by the directive approved at the November 27 and December 10 meetings, had been designed to meet expected heavy liquidity needs of the period due to seasonal and special international factors. They had, in effect, been conducted so as to prevent any increase in restrictive pressures beyond those previously applied and had actually relaxed pressures somewhat. There had been continued pressures on the market, however, because of the very heavy credit demands, some of which reflected more than the usual business borrowing to meet end-of-year financial needs, owing in part to the reduced liquidity of business. These developments indicated that credit demands continued to be vigorous.

With the economy operating at close to capacity limits and with prices continuing to rise, the change in the policy directive to delete the reference to seasonal factors that brought additional pressures and which had called for some adjustment of policy in the last few weeks of 1956 seemed appropriate. At the same time, the revised wording registered an awareness by the Committee of the possibility of unduly severe restraint inherent in the current low level of corporate liquidity and in the financing program ahead. In other words, the directive issued at this first meeting of 1957 continued the policy of restraint upon credit expansion that had been in effect for approximately two years, but it represented an adjustment from the program followed in the last few weeks of 1956 when funds had been put into the market to help meet added seasonal pressures within the limits of the policy of restraint.

2. Resolution concerning International Monetary Fund transactions.

The Committee approved the following resolution: "Resolved, that the Federal Open Market Committee express no views with respect to the form in which the International Monetary Fund chooses to draw upon its dollar resources."

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, and Szymczak. Votes against this action: None.

This resolution was a response to an inquiry by the United States Executive Director of the International Monetary Fund who had inquired whether the Federal Reserve System would see objection to use by the Fund of some of its gold holdings in meeting prospective drawings against the Fund. In concluding that it would express no views as to the form in which the Fund might choose to draw upon its dollar resources, the Committee sought to preserve the utmost freedom to the Fund in meeting its problems. It was not felt that the Federal Reserve System should tell the Fund or any other agency how it should carry out its responsibilities. The Committee wanted, however, to be kept informed by the Fund in advance of its operations in the American market and appreciated having had an opportunity to know of and consider the current proposal. In keeping with this approach, the Committee felt that the System should follow monetary policy that fitted the circumstances whenever external factors occurred. Thus, in approving the resolution it was understood that the Committee's operations would be used to offset the influence of the operations of the Fund in accordance with whatever the Committee's policy might be.

January 28, 1957

1. Authority to effect transactions in System account.

The Committee made no change at this meeting in the wording of its directive to the Federal Reserve Bank of New York, thus continuing in effect the policy decision that operations for the System open market account should be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation."

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: None.

At the time of this meeting the economic situation domestically remained one of intensive utilization of manpower and other resources and of demand pressure on price levels. Abroad, output and employment generally continued at high levels with price trends most typically on the upside. Domestic industrial production for January was turning out to be at about the same level as in December.

There were at the same time developments that suggested that the economy might be losing some of its upward momentum. While these data were not sufficient to support a forecast of a downward turn as a clear, nearby prospect, they suggested that the economy might be entering a period of sidewise movement. For example, a tendency for total capital expeditures to level off was evidenced by recent figures for factory construction contracts, new machine tool orders, and freight car orders, together with scattered announcements of postponements of plant construction projects. There were cross currents in the area of prices with higher costs showing up in increased prices for finished goods, both at wholesale and at retail, in contrast with a softening trend in prices of a number of primary products. Business loans at all reporting member banks after a fourth quarter rise of $1.6 billion declined by more than $700 million in the three weeks to mid-January, a postwar record decline for the period that compared with a drop of $355 million a year earlier. A rapid decline in security loans had also occurred and about three-fourths of the total rise in loans during the fourth quarter of 1956 had been wiped out. December's sharp rise in interest rates had been followed by an equally sharp decline, the tight tone of the money market by a feeling of ease. The contraction in bank loans that had occurred since the latter part of December had taken place notwithstanding a continued state of relatively less restraint on bank reserve positions, reflected in a decrease in member bank borrowing to the lowest level since early 1955. This liquidation of bank loans since the Christmas season indicated that most of the unprecedented credit demands in December had been to cover temporary needs for cash.

These mixed developments suggested on balance that, while the situation still seemed to be one of pressures on the expansionary side requiring continued restraint on credit growth, care was needed to avoid becoming too restrictive. In reviewing operations during recent weeks, the Committee recognized that the furnishing of reserves in the latter part of 1956 to meet seasonal and other requirements had actually resulted in some reduction in the degree of restraint on credit expansion that had existed in mid-November. It also recognized that the current relative ease was unintended, since it reflected a larger than expected decline in loans and return flow of currency, as well as the relative immobility imposed on the System by the Treasury financing operation. It was believed that operations now should be designed toward restoring approximately the degree of restraint of the late November-early December period, but it was not believed that an increase in that level of restraint was called for at this particular time.

2. Increase in authority to effect transactions in System account.

The Committee ratified the action taken by the individual members of the Committee as of the close of business January 22, 1957 in increasing by $300 million the authorization to the Federal Reserve Bank of New York to make sales of securities from the System open market account under paragraph (1) of the directive approved January 8, 1957.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: None.

The directive approved at the meeting on January 8, 1957, provided a limitation of $1 billion on the aggregate amount of securities that might be purchased or sold for the System open market account in carrying out the policy approved at that meeting. By

January 22, the larger than expected contraction in bank loans, along with various other factors adding to the availability of reserves, made it desirable that the System account have greater leeway to makes sales of securities than had been authorized at the January 8 meeting in order to absorb more of the reserves coming into the market and thus to maintain the policy of restraint on inflationary developments. This January 22 increase of $300 million in the limitation was no longer believed necessary at the time of the meeting on January 28 and, in issuing the directive at that time, the Committee fixed the limitation at $1 billion, the same as that approved on January 8.

February 18, 1957

Authority to effect transactions in System account.

No change was made in the policy directive issued by the Committee, which again directed that open market operations be with a view to restraining inflationary developments in the interest of sustainable economic growth, while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: None.

There was no clear evidence of serious weakness in the economy, although business and financial observers had been reappraising, with some doubts, their year-end expectations that 1957 would bring further advances in business activity and further creeping inflation. Industrial production had hesitated in January and slipped back one index point, but it remained close to record levels. While the general level of wholesale commodity prices had continued to rise from mid-December to mid-January and probably further to mid-February, advances in industrial commodities had slackened since late autumn. For some months industrial construction had been below a year ago and, since the spring of 1956, residential contract awards in millions of square feet had been falling. Nonresidential construction awards for business purposes also had been declining, and available evidence suggested that plant and equipment expenditures by manufacturing industries were in the process of leveling off. Unfilled orders in durable goods industries had changed little since August, in contrast to the earlier situation of a mounting order backlog. Business inventories had risen through 1956 at about the same rate as in 1955. This increase in inventories had been greater than the rise in sales, so that inventory-sales ratios in manufacturing were currently higher than a year earlier. The labor market was still strong. Government spending for goods and services had been rising steadily, and further steady rise seemed to be in prospect. Consumer incomes had risen further and spending at retail in January had been at about the record level relative to the season of December. Business optimism was running higher than in the third quarter of 1956—a feeling that appeared to be shared by most manufacturing and retail groups. Demand for long-term business funds continued very strong.

From the survey of economic data available, there was evidence of some slackening in the momentum of inflationary tendencies, but as yet there was no clear-cut evidence of a combination of forces that would halt the advance in the foreseeable future. The financial problem of the economy continued to be that of aggregate demand pressing against aggregate supply. Credit developments in recent weeks had continued to indicate a relaxation of pressures, with rapid bank loan liquidation, less strain on bank reserve positions, a sharp decline in money rates, and an improved tone in the bond market which had permitted sale of a large volume of new issues of securities at declining yields. This easing of inflationary pressures was the goal toward which monetary forces had been directed. It was too early to tell, however, whether this was but a temporary lull, the beginning of a downturn, or the attainment of high-level stability. While it seemed clear that it would be unnecessary and inappropriate to have more stringent restraint at this time, there appeared to be confidence in the vitality of the economy, and this suggested that credit policy should not help to promote a new bulge in activity. The Committee's conclusion was that this was a time calling for continuation of the status quo, and on that basis no change in the policy directive was deemed necessary or desirable.

March 5, 1957

1. Review of continuing authorities or statements of policy.

At this, the first meeting of the Federal open Market Committee after the new members elected by the Federal Reserve Banks for the year beginning March 1, 1957 had assumed their duties, the Committee reviewed and reaffirmed all continuing statements of operating policy and specific authorities for operations which were in effect immediately prior to this meeting. Among the continuing statements of policy that were renewed were 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).

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.

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.

The action renewing these three statements was taken by unanimous vote, pending further study of these and related matters.

Votes for these actions: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Williams. Votes against these actions: None.

2. Authority to effect transactions in System account.

The policy directive of the Federal Open Market Committee was changed at this meeting for the first time since the meeting on January 8, 1957 by adopting wording for clause (b) of paragraph (1) to provide that, among other things, open market transactions would be with a view "to restraining inflationary developments in the interest of sustainable economic growth while recognizing uncertainties in the business outlook, the financial markets, and the international situation." This wording superseded that in effect since January 8, which had called for operations with a view "to restraining inflationary developments in the interest of sustainable economic growth, while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation."

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

This change in wording of clause (b) of the Committee's directive was not an indication of a shift in direction of policy but was designed to emphasize the factor of uncertainty in the current business outlook. The general direction of policy continued to be one of restraining inflationary developments.

In its review of conditions, the Committee found evidence of the slowing down of expansionary forces in many sectors of the private economy but no indication that a pronounced downturn had begun. Rather, there were many underlying forces tending to hold activity at a high level. In contrast to the indications of balance in the private economy, the governmental sectors were showing some signs of strain. State and local government expenditures continued to increase and those of the Federal Government also were rising. It was apparent that the Federal budget surplus would be considerably less during the current year than last, and in addition large cash drains on the Treasury were to be expected for non-budgetary payments such as savings bond redemptions, aid to the mortgage market, drawings by international agencies, and attrition on refundings of marketable securities. There had been some easing in credit markets during January, partly because of funds made available by the Treasury and because bank loans had declined as increased funds had become available for new capital issues. Increased financing strains had developed for the Treasury, and it had had to go to the short-term market for new funds at a time when a reduction in

Treasury debt had been expected. The apparent slackening in demand for private credit, if accompanied by increased Government borrowing, might not present an appropriate occasion for relaxation of restraints on credit in general, since it seemed essential that the Treasury borrow as much as possible from savings or that any Treasury borrowing from banks be largely offset by curtailment in bank credit supplied to private borrowing. It was suggested that the only way in which the economy would continue to have growth without inflation under existing conditions was by reducing spending and increasing saving.

While it was apparent that a sidewise movement was taking place in the economy, there was uncertainty as to which way the economy would go. In any event, however, since the economy's upward momentum had definitely slackened and since the rise in finished goods prices seemed likely to level off in the near future, it was not believed appropriate that overt action be taken toward increasing credit restraint, although maintenance of about the degree of restraint that had existed for some time seemed to be called for. Thus, the Committee sought to continue about the same pressure on credit expansion that had been intended by the actions taken at the last several meetings, and in modifying the wording of the policy clause of the directive it was simply bringing into the picture a specific reference to the business outlook which had not been mentioned in the previous wording.

March 26, 1957

Authority to effect transactions in System account.

The policy directive calling for a continuation of restraint on inflationary developments was renewed without change at this meeting of the Federal Open Market Committee.

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

The Committee's review of the economic situation did not indicate a material change since the preceding meeting but rather showed a sidewise movement of activity at inflated price levels.

There had been evidence of slackened momentum in the cyclical advance after some 30 months of sustained rising activity, and the question was how monetary policy should react in this situation after a depreciation in the purchasing power of the wholesale dollar over these months of about 6 per cent and of the consumer dollar of over 3 per cent.

This cyclical rise in activity had gotten its first stimulus from consumer outlays for houses and durables purchased heavily on credit. This had been in direct response to the exceptionally easy credit conditions prevailing in 1954. The size of this stimulus had resulted in a large acceleration in business plant and equipment expenditures but there were other factors bringing about these capital expenditures, such as high wage costs and much technological obsolescence of plant and equipment. The large capital investment had meant a heavy total demand for credit and also that savings would have to increase substantially if monetary expansion were not to get out of control. It also had meant that interest rates would rise to higher levels. In addition, since supplies had to be diverted so largely to producers' goods, thus generating additional income without enlarging short-run supplies of products for current use, the rising investment had meant that commodity and service markets were under heavy demand pressures tending to advance prices. Against this background, the Open Market Committee had directed policy for more than a year before this meeting to resisting inflationary pressures as they intensified.

Although it appeared at this time that the boom had lost much of its buoyancy, it was not possible to tell whether the present sidewise movement would continue for some months, perhaps with a renewed upward movement, or whether the economy would decline. Consumer demand, industrial production, and employment remained at or near record levels, although they were no longer rising appreciably.

The Committee's conclusion that the policy directive should be continued with emphasis on restraint included the understanding that, in adjusting amounts of reserves supplied to the market by the Federal Reserve System, doubts should be resolved on the side of greater rather than less restraint than had existed in recent months.

April 16, 1957

Authority to effect transactions in System account.

The directive of the Committee was renewed without change, continuing the policy of restraint on inflationary developments.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, and Williams. Votes against this action: None.

Economic activity continued on a high plateau with divers surface irregularity. Wholesale prices appeared to be generally stable with consumer prices continuing to tend up. In the credit field, private loan demands were somewhat more moderate than they had been a year earlier, but they were still large and in addition the Government was becoming a new source of borrowing demand on banks. Additional reserves sought by member banks recently had been supplied largely through an increase in member bank borrowing, and the money market had become tighter than at the time of the preceding meeting.

The Committee considered that the increased degree of pressure that had resulted since the preceding meeting had been appropriate. In deciding to renew its policy directive without change, it felt that a stable situation should be maintained for the next few weeks.

May 7, 1957

Authority to effect transactions in System account.

Again the Committee's directive was renewed without change, providing for restraint on inflationary developments.

> Votes for this action: Messrs. Martin, Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Vardaman, Williams, and Treiber. Votes against this action: None.

The economy continued to move sidewise but with a slight upward tilt for both gross national product and prices. Credit markets had continued under pressure of large borrowing demands. New securities issues by corporations, though at a slower rate than in the first quarter of the year, had continued relatively heavy. Pressure of credit demand had resulted in a sharp run-up in bond yields although rates on Treasury bills had declined, reflecting an easing of member bank reserve positions as a result of funds supplied when the Treasury drew down its balances that had been built up during March. Business sentiment appeared to have become more optimistic. There were fewer products in short supply. At the same time, there was a shortage of savings, the country was operating at an inflated price level, and, although monetary policy could not appropriately be used to restore the price level that had been lost through the inflationary process, it was believed that it should be set to counter further inflationary developments. Renewal of the directive without change was on the basis that current developments made a continuation of substantially the existing degree of restraint appropriate and that no overt action to ease or to tighten the situation was called for.

May 28, 1957

Authority to effect transactions in System account.

The policy directive of the Committee calling for restraint on inflationary developments was renewed without change at this meeting.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Williams. Votes against this action: None.

The economic situation continued fundamentally strong and essentially unchanged since the preceding meeting. Business sentiment seemed to have improved perceptibly even though current indexes of production and distribution indicated a sidewise movement, at best, or perhaps a slight downward tilt. Wholesale prices had shown little change and retail prices had advanced somewhat further.

The degree of pressure in the money market had continued about unchanged for several weeks, and in renewing its directive without change the Committee sought to have the same situation continue for future weeks. The Committee also observed that the Federal Reserve System would be called upon to supply additional reserves to meet seasonal needs in the second half of the year and discussed whether the directors of the Federal Reserve Banks might consider an increase in the discount rate appropriate as a means of maintaining restraint under these circumstances.

June 18, 1957

Authority to effect transactions in System account.

Renewal of the directive without change at this meeting continued the policy of firm restraint on inflationary developments.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Williams. Votes against this action: None.

Over-all economic activity appeared to be showing great strength. The general level of wholesale prices had advanced slightly since mid-May. Consumer prices had been continuing their steady rise and were estimated to be about 4 per cent higher than a year earlier. Expansion of bank loans had unmistakably slowed down this year, but the turnover of demand deposits had risen substantially. Thus, while monetary growth had been moderate during the preceding 12 months, it appeared to have been adequate for the economic activity that could be had on the basis of existing resources. The tighter condition of the money market during the past three months, which had been brought about within the present wording of the Committee's directive, did not appear to have been too restrictive, and the Committee's conclusion was that a firm policy of restraint should be continued for the present.

July 9, 1957

Authority to effect transactions in System account.

Another renewal without change of the directive providing for restraint on inflationary developments resulted from the deliberations of the Federal Open Market Committee at this meeting.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Williams. Votes against this action: None.

At midyear, over-all economic activity was being maintained at about the high level of the past winter. Downward adjustments had been going on in a number of lines but the areas of weakness had not widened significantly and upward adjustments had been taking place in other areas. The general sidewise movement during the first half of 1957 had been similar to that of the first half of 1956. In the earlier year, easing tendencies through July had been followed by strong expansion later in the year. A like course of events was widely anticipated in business and financial circles at the time of this meeting. One of the strong factors at this time was in construction where outlays for residential building had increased in June—the first rise in seven months—following a sharp rise in total construction contracts in May. A disturbing element, however, was the renewed rise in construction costs after six months of relative stability. There also had been a rise in new orders of durable goods manufacturers in May, the first since November of 1956. Average hours worked in manufacturing had increased slightly in June, following several months of decline. Economic activity abroad remained buoyant and a number of countries recently had adopted additional measures to restrain the strong inflationary pressures. It seemed clear that the economy was in a period of prosperity as well as inflation.

Considerable feeling was expressed at this meeting of the Open Market Committee that an increase in the degree of pressure was called for, particularly since the Federal Reserve System would have to supply reserves during the remainder of 1957 to take care of seasonal borrowings and Treasury needs. One of the possibilities discussed was that of putting additional reserves into the market through the System account and at the same time increasing the discount rates of the Federal Reserve Banks as a signal that the System felt that credit policy should be tighter than it had been. It was concluded, however, that under present conditions it would not be wise simultaneously to increase the flow of reserves and to raise discount rates. The Treasury was about to make an offering of securities for which payment would be made when seasonal demand for reserves was increasing. The Committee's decision, therefore, was to renew the directive without change and to maintain but not to increase the existing degree of restraint for the immediate future.

July 30, 1957

Authority to effect transactions in System account.

This meeting of the Committee also resulted in a decision to continue without change the policy directive providing for restraint on inflationary developments.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Shepardson, Vardaman, and Williams. Votes against this action: None.

Data presented at this meeting showed little change in the picture of the economy that had been developed in recent meetings of the Committee. Such new data as had become available, while indicative of divergent trends in various areas, did not alter the over-all impression of the sidewise movement, and they provided no clue as to the direction and intensity of the next major change in economic activity. Prices were up at both wholesale and retail, however, apparently to new highs. During July there had been some moderation of the degree of tightness in money and securities markets. A large Treasury refunding operation was completed and a substantial reduction in bank loans and investments occurred following a sharp increase in June.

The Committee took cognizance at this meeting of a further rise in interest rates, including a sharp rise in bond yields. Although recent credit expansion had been moderate, the world-wide atmosphere of ebullience and the tendency to accept inflation as inevitable seemed to call for continued restraint through monetary and fiscal measures. Four of the European central banks had increased discount rates during the month, and the reports indicated that inflationary pressures existed in Asia, South America, and other parts of the world as well. Commodity prices had shown a disturbing degree of imperviousness to monetary restraint for more than a year.

The Committee's decision that there should be no change in its policy directive at this time but that efforts should be made to regain the degree of pressure that existed before the Treasury refunding operation in July reflected the view that it was appropriate to keep the banking system under substantial pressure. However, it was observed during the Committee discussion that the discount rates of the Federal Reserve Banks at 3 per cent were already lagging behind the rate structure generally and that if other rates continued to rise the directors of some of the Reserve Banks could be expected to give consideration to raising their discount rates.

August 20, 1957

Authority to effect transactions in System account.

No change was made at this meeting in the Committee's directive that policy should be with a view to restraining inflationary developments.

Votes for this action: Messrs. Martin, Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Vardaman, Williams, and Treiber. Votes against this action: None.

In the period between the Open Market meeting on July 30 and that on August 20, the directors of nine Federal Reserve Banks acted to increase the discount rates of those banks from 3 per cent to 3½ per cent. These actions followed an increase from 4 per cent to 4½ per cent early in August in the rate charged by commercial banks on loans to prime borrowers, as well as further increases in other market rates. The increase of one-half percentage point in discount rates generally was regarded as primarily a technical move made at a time when market interest rates were considerably above discount rates. It was recognized that business activity was continuing to move sidewise and that the business outlook seemed to be a little less buoyant than a few weeks earlier. Money markets had tightened somewhat in August. Although a heavy repayment of business loans occurred in July and early August following record tax borrowings in June, demand for credit and capital continued strong.

No change in the directive of the Committee calling for restraint on credit expansion was made at this meeting, but in renewing the directive the Committee did so with the understanding that the System account would have latitude for flexibility in providing reserves during the next few weeks.

September 10, 1957

Authority to effect transactions in System account.

The Federal Open Market Committee's policy directive was again renewed at this meeting without change in the wording calling for restraint on inflationary developments.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Leedy, Mills, Robertson, Szymczak, Vardaman, Williams, and Irons. Votes against this action: None.

When the Committee met on September 10, it again found no material change in over-all business activity since the preceding meeting or, for that matter, for the past several months. Data were presented showing that bank credit had expanded somewhat less rapidly in the past five weeks than in the corresponding period of other recent years. It was also pointed out that banks continued to feel heavy pressure for loans and that the substantial reduction in bank liquidity since a year earlier had intensified that pressure. Monetary expansion had been virtually absent since spring, some slackening in the rise in money turnover had appeared, and normal seasonal pressures could be expected to reinforce the Committee's policy of restraint. Also, it was reported that banks currently were cautious and that since the increase of one-half percentage point in the Reserve Bank discount rates in August, there was recognition throughout the country of the Federal Reserve's policy of firm restraint. Thus, although the Committee made no change in the policy directive, it was renewed with the understanding that in carrying out the broad policy of restraint in the immediate future doubts would be resolved on the side of less rather than greater restraint.

October 1, 1957

Authority to effect transactions in System account.

The directive of the Federal Open Market Committee was renewed without change at this meeting and the policy of restraint on inflationary pressures was thus continued.

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

At the time of the October 1 Open Market Committee meeting, an increasing number of business observers were suggesting that the major expansive forces had been spent, that pressure of inflationary forces was in process of lessening and even of dispersing, and that the prospective movement in activity was a decline. Business sentiment, which had shown pronounced gyrations over the past two years, being at times more optimistic than the figures and portents, at other times less optimistic, appeared to be developing into a psychology of gloom in some places and was much more cautious about prospects than for some months. That was reflected in inventory policy which, after permitting some rise in the spring months, later was designed to hold inventories in close relationship with sales. On the other hand, the reports to the Committee at this meeting did not present a picture of a settling or declining economy. There was considerable feeling that while inflationary clouds might be breaking up, it would be premature to conclude that they had been scattered.

The most significant financial development reported to the Committee was that there had been a leveling out of interest rates at the advanced level of early August. This leveling out had occurred notwithstanding the increase in Reserve Bank discount rates, the unprecedented two-point rise in the rate of the Bank of England, continued large offerings of new security issues by corporations and State and local governments, and relatively heavy borrowing by the United States Treasury. A smaller than seasonal increase in business loans in the first half of September had been followed by an unusually large decline in the latest week. Required reserves of banks had increased less than anticipated, reflecting the smaller increase in credit and deposits. For the third quarter as a whole, growth in bank loans had fallen further behind the preceding year than had been the case in the second quarter, but bank investments had increased somewhat more than in the previous year. The money supply was less than one per cent higher than a year earlier. This picture suggested that banking developments had kept within the limits envisioned by recent policies of credit restraint and that capital market rates might have reached the level appropriate to the maintenance of equilibrium.

The views of the Open Market Committee at this meeting were that there should be no change in policy or in the Committee's directive at this time. In reaching this conclusion, the Committee did so with the understanding that, in carrying on transactions for the System open market account, an effort would be made to continue the same degree of restrictive pressure that had been sought during the preceding three weeks.

October 22, 1957

Authority to effect transactions in System account.

The Committee renewed its policy directive with the same wording that had been adopted at the meeting on March 5 and at each meeting since, namely, that open market operations were to be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while recognizing uncertainties in the business outlook, the financial markets, and the international situation."

Votes for this action: Messrs. Hayes, Vice Chairman (presiding), Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, and Williams. Votes against this action: None.

The over-all situation at the time of the October 22 meeting was such as to suggest that the Committee should be especially alert to any sign of breakout from the sidewise movement that had been characteristic of business for some months. In a searching reexamination of the economic situation, the Committee found that the latest quarterly and monthly figures showed continuation through the third quarter of 1957 of many features prevailing earlier in the year, with production steady at a high level, price movements in wholesale markets mixed with the average up, and consumer prices generally continuing upward. September industrial production was at 144, down a point from August but within the narrow 143 to 146 range prevailing so far this year. The economy as a whole showed basic strength, but there was uncertainty as to what combination of demands would prevent recession in activity, or, on the other hand, make for an advance in total output and employment from present levels.

In analyzing the implications of recent business and credit developments for monetary and fiscal policy, it appeared that there had been short-run abatement in inflationary pressures, and questions were raised about potential declines in important sectors of activity. Business sentiment had turned more pessimistic than the current indicator picture, and attitudes of common stock investors appeared to reflect a growing disbelief in the extension of inflationary trends. Business loan expansion was continuing to run behind the preceding year. As a result of the increasing uncertainty as to the business situation, resulting particularly from psychological factors and from international developments including the Russian earth satellite launching, the environment for monetary policy was beginning to look quite different from the boom conditions that initially justified the current restrictive policy. It was suggested that the Federal Reserve System should meet seasonal reserve requirements freely and that, if readjustments then taking place were to gather momentum, some easing of member bank reserve positions and even a decrease in Reserve Bank discount rates might be appropriate. In sum, the economic data presented indicated that developments in business and economic conditions would have to be watched particularly closely in coming weeks in order to make policy adjustments that might be suitable.

The Committee concluded, after reviewing the data, that there was no immediate occasion to reverse its policy of restraint on credit expansion or to make a change in the policy directive. While it was clear that the Committee at this juncture did not wish to make any move which would signal a change in policy, it wished to supply seasonal needs reasonably freely. It did not wish to increase restraint from what it had been. There was some feeling that the Committee should actually diminish restraint a little, but more of the members believed that the Committee should resolve doubts on the side of ease. Thus, in renewing the directive without change, the Committee agreed that although general policy was not to be changed appreciably, it should tend on the easier side from where it had been in recent weeks.

November 12, 1957

Authority to effect transactions in System account.

The directive of the Federal Open Market Committee was changed at this meeting by deleting the clause that had been in effect since March 5, 1957 calling for operations with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while recognizing uncertainties in the business outlook, the financial markets, and the international situation," and by replacing that clause with wording that called for operations with a view, among other things, "to fostering sustainable growth in the

economy without inflation, by moderating the pressures on bank reserves."

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Shepardson, Szymczak, and Williams. Vote against this action: Mr. Robertson.

Data presented to the Committee at this meeting showed that the economic climate domestically was in process of change, that expansive forces had eased, and that contractive forces had become more prominent. Declines were indicated by data for October covering industrial production, employment, and department store sales, and unemployment claims were running sharply above a year earlier. These changes had followed significant weakening in business sentiment as evidenced by sharp declines in stock market prices, in prices of sensitive commodities, and in new orders. There also had been a sizable number of professional forecasts of business decline. The spreading view that business outlays for fixed capital were heading downward had been given recent support by a survey of plans for capital spending in 1958, which showed a decline of a tenth or more. Private demands for bank credit had eased considerably in October, with business loans at city banks showing a substantial decrease in contrast to a marked increase customary during that month. Demands for long-term funds, however, continued strong. Yields on Government securities had declined steadily although moderately in recent weeks. Bank reserve positions had eased somewhat since early October, reflecting in part a decline in required reserves and in part Federal Reserve open market operations.

Among the latest specific data presented at this meeting, the Committee noted that after five months of little change, domestic output at factories and mines was expected to show a drop of as much as two index points from September to October. Declines in output were widespread although most conspicuous in durable goods lines. Both freight carloadings and electric power generation in October were off moderately, the decline in carloadings extending a decline that had begun in April and that for power generation a decline that commenced in August. While total new construction was holding at a high level, industrial construction had continued the decline that had set in in May of this year. Business inventory accumulation had slowed markedly in recent months. Nonfarm employment in October had receded further from the peak reached in August. Not only were the signs of domestic decline fairly general, but in Canada recession tendencies had become clear, and in Europe industrial activity which had ceased expanding in late spring of 1957 had tapered off moderately through the summer months.

Although the Committee's analysis showed that the domestic economy still was operating at high levels and that the downward adjustment thus far had been moderate, there no longer was much doubt that at least a mild downturn in business activity was under way, and there was widespread belief that it would probably continue well into 1958. The major question seemed to be not whether a further business decline would occur, but for how long and in what degree. In terms of credit policy, the question presented was how far the Committee should go at this time in recognizing the change in the economic situation and outlook, and by what means.

The Committee's decision at this meeting was that action should now be taken to recognize the change in the general economic situation away from the sidewise movement that had prevailed during most of 1957. This did not signify a shift that would entirely eliminate restraint on credit expansion, but it did reflect a decision that there should be a moderate relaxation of the degree of restrictive pressure. It was on the basis of this general view that the directive was changed to eliminate the previous clause (b) which had called for restraining inflationary pressures and to replace that clause with wording that provided for open market operations with a view, among other things, "to fostering sustainable growth in the economy without inflation, by moderating the pressures on bank reserves."

Mr. Robertson dissented from the foregoing action with respect to the insertion in clause (b) of the words "by moderating the pressures on bank reserves." His action was based on the belief that the prevailing condition of the economy was not such as to call for a lessening of restraint, that inflationary potentials were still strong, and that continued restraint was essential to their containment.

There was also a discussion at this Open Market Committee meeting, at which all of the Federal Reserve Bank Presidents were in attendance, of the relationship of open market policy to the discount rates of the Federal Reserve Banks and the appropriateness of those rates in view of the changed economic situation and the change in open market policy.

December 3, 1957

1. Authority to effect transactions in System account.

The Committee renewed its directive in the same form that had been adopted at the meeting on November 12, 1957, at which time the wording of clause (b) of the first paragraph had been changed so that it called for operations in the open market with a view, among other things, "to fostering sustainable growth in the economy without inflation, by moderating the pressures on bank reserves."

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Shepardson, Vardaman, and Williams. Vote against this action: Mr. Robertson.

The economic report at this meeting was consistent with that presented at the meeting on November 12 showing a moderate downsettling of the economy. Industrial production had continued to sag, especially in the areas of steel and other metals, equipment and ordnance, household durables, apparel and textiles, and mining, but higher automobile output had tended in the direction of maintaining the level of the index of industrial production. On the other hand, new construction was being well maintained, with residential and public utility construction up, industrial construction down, and commercial and public construction about even.

The further sag in equipment production and industrial construction was closely related to cutbacks in spending decisions for business, plant, and equipment. Information that had just become available on third quarter capital appropriations of large manufacturing companies showed a decline of almost a third from a year earlier. This was the second successive quarter showing a substantial decline. Labor market data showed a further rise in unemployment claims, with increases fairly widespread geographically. The mid-November unemployment survey showed substantially more than the usual seasonal rise in number of unemployed to a seasonally adjusted level of about 5.2 per cent of the labor force. Gross national product for the fourth quarter of the year according to preliminary estimates would probably show little change or moderate decline from the third quarter of the year. Personal income in October had declined for the second successive month due to reduced wage and salary disbursements. The general average of wholesale prices had shown little change in November, while the consumer price index which was unchanged in October was expected to show a rise in November, reflecting higher new automobile prices and additional advances in rents and service costs.

In the credit field, cross currents in economic forces in recent weeks had precipitated sharp and often paradoxical developments in financial markets. Through action reducing the discount rates of the Federal Reserve Banks from a 3½ per cent level to a 3 per cent level in mid-November, there had been public recognition by the Federal Reserve System that economic adjustment had lessened and perhaps removed the threat of inflation for the time being. Prices of securities in the stock market had increased sharply in this period, and prices of bonds had risen substantially with corresponding decreases in yields. Bank credit had continued to decline, contrary to the usual seasonal tendency at this time of year.

As a result of the slackened growth in bank credit and deposits, required reserves of member banks had failed to show the customary seasonal increase in November. In addition, reserves had been supplied by a reduction in Treasury balances at the Federal Reserve Banks and by substantial System purchases of bills. The cumulative results of these measures were being reflected in member bank reserve positions at the time of this meeting, and it was expected that if the Treasury continued to keep its balances in the Federal Reserve Banks at a low level, no strain on member bank positions would occur during December despite customary seasonal demands for additional funds.

In the Committee's review of the economic situation, the view was advanced that while it had become more evident than at earlier meetings that business was declining, there were basic uncertainties that made it difficult to assume either a prompt resumption of the upward movement in business or much further continuation of the decline. In these circumstances, the general view of the Committee was that there should be further moderating of the restrictive pressures on credit expansion and, for this reason, the directive was renewed with the same terms that had been approved at the meeting on November 12 calling for "fostering sustainable growth in the economy without inflation, by moderating the pressures on bank reserves."

Mr. Robertson dissented from this action for the same reasons as those stated previously for dissenting from the wording adopted at the meeting on November 12.

2. Rate of interest on special certificates.

The Committee authorized that the rate to be charged on special short-term certificates of indebtedness purchased direct from the Treasury pursuant to paragraph (2) of the Committee's directive to the Federal Reserve Bank of New York be fixed at one-fourth of one per cent below the discount rate of the Federal Reserve Bank of New York at the time of such purchase.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Shepardson, and Vardaman. Votes against this action: Messrs. Robertson and Williams.

Section 14(b) of the Federal Reserve Act authorizes purchases or sales of securities by the Federal Reserve Banks direct from the United States Treasury under certain conditions and with a proviso that the aggregate amount held by the Reserve Banks at one time shall not exceed $5 billion. Paragraph (2) of the Committee's directive, which authorized purchases for the account of the Federal Reserve Bank of New York of such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury, had been used infrequently over the years and had not been used at any time since March 1954. The rate charged for the facility when it had been used had been one-fourth of one per cent, a rate that had prevailed since the early 1940's when the discount rates at the Federal Reserve Banks were at the one-half per cent level.

The purpose of the Committee in taking the action was to adopt a procedure which would provide for a rate that was flexible and closer to the current market.

In voting against this action, Messrs. Robertson and Williams indicated that they felt the matter was of little importance and that on the whole it would be preferable to let the existing rate of one-fourth of one per cent stand.

December 17, 1957

Authority to effect transactions in System account.

The policy directive of the Federal Open Market Committee was changed at this meeting to provide that transactions for the System open market account were to be with a view, among other things, "to cushioning adjustments and mitigating recessionary tendencies in the economy." This wording replaced that adopted at the meeting on November 12 and reaffirmed at the meeting on December 3 calling for transactions that would foster sustainable growth in the economy without inflation, by moderating the pressures on bank reserves.

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

General economic recession appeared to be the most appropriate description for the drift in over-all activity that had characterized developments for some weeks prior to this meeting. The industrial production index for October had been placed at 141 and a preliminary estimate of the index for November was 139, or 5 index points below the September level of 144. The decline, which had been greater than was indicated previously, had been widespread despite the strong factor of new automobile assemblies during November. December production schedules for the automobile industry had been reduced because of a resistant sales market in November, steel output had slipped further, and it appeared that average hours worked might decline further in December. The latest data on business plant and equipment expenditures also justified the characterization of general recession in that these figures pointed to a faster and a greater downward adjustment than had been indicated earlier. Another item was the liquidation of business inventories at a rate of $4.5 billion annually during the month of October—a movement which appeared to have continued during November, with the contraction concentrated in durable goods lines. The labor market also pointed to general recession, with unemployment at the highest rate, on a seasonally adjusted basis, since late 1954. Accompanying these changes, personal income was down during November and this had been reflected in slower retail trade in recent weeks.

The average of wholesale prices had shown little change during the past two months.

In the financial area, a significant development in November had been a decline in the seasonally adjusted annual rate of turnover of demand deposits at banks outside New York City, along with a less than seasonal increase in the volume of demand deposits. With turnover about the same as a year earlier, it could no longer be said that increased turnover had offset the effect of a decrease in the supply of money. Federal Reserve operations in late November and early December had supplied a substantial volume of reserves to meet seasonal needs, but even so considerable tightness in the money market had developed in mid-December, partly reflecting the usual seasonal increase in currency needs along with a sharp expansion in credit demands to meet heavy liquidity requirements of the public usual at that time of the year. In addition, the Treasury was raising new money in the market at that time.

The economic and financial data presented at this meeting confirmed rather clearly the developing recession that had been indicated by reports at earlier meetings at which the Committee acted to moderate the pressures on bank reserves. The recession was still of moderate intensity, and inasmuch as the Committee actions taken since mid-November to lessen pressures on reserves, together with the reduction in Reserve Bank discount rates, had signaled an effective change in policy toward less severe credit restraint, it did not appear to the Committee that additional major actions were necessary at the moment. The change at this meeting in wording of the Committee's policy directive was adopted with the understanding that reserves would continue to be made somewhat more available, but the particular reason for this change was to recognize that the economy had encountered a recession and that the Federal Open Market Committee's policies were being molded accordingly.

* * *

Four changes in the wording of the directive of the Open Market Committee were made during 1957, the changes being those reported in this record for the meetings held on January 8, March 5, November 12, and December 17. The January 8 and March 5 changes continued policy within the framework of that in effect at the beginning of the year which placed emphasis on restraint of inflationary developments. The change made on November 12 represented a significant shift in policy away from the emphasis on restraint of inflationary developments, to a program for fostering sustainable growth in the economy without inflation, by moderating the pressures on bank reserves. This shift in policy was further emphasized at the meeting on December 17 with the inclusion in the directive of words that gave frank recognition to recessionary tendencies that were present and to the need for mitigating such tendencies and for cushioning adjustments in the economy. The directive in effect at the conclusion of 1957 read as follows:

(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 cushioning adjustments and mitigating recessionary tendencies in the economy, 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;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.