

FORTY-FOURTH
ANNUAL REPORT
of the
BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR
1957

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.

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