RECORD OF POLICY ACTIONS

FEDERAL OPEN MARKET COMMITTEE

The record of policy actions of the Federal Open Market Committee is presented in this report pursuant to the requirements of Section 10 of the Federal Reserve Act. That section provides that the Board of Governors of the Federal Reserve System 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 and 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. Section 10 also provides that the Board shall include in its Annual Report to the Congress a full account of the actions taken during the preceding year, both by the Board and by the Federal Open Market Committee, with respect to open market policies and operations and with respect to the policies determined by the Board.

The record of policy actions of the Federal Open Market Committee is prepared on the basis of the minutes of the meetings of that Committee, as approved by the Committee, and sets forth the policy decisions reached together with a résumé of the reasons therefor. Many policy decisions are by unanimous vote of the Committee members, but the emphasis on specific reasons for preferring a particular line of policy may vary from individual to individual. There are times when individual members of the Committee may concur in a concept of policy action formed by a majority because it moves generally in the direction that they believe to be called for, even though their views may differ considerably from those of other members of the Committee as to the degree of movement that is desirable. When a member records a dissent from an action of the majority of the Committee, the dissent may reflect a variety of factors, such as a fundamental disagreement with the direction of policy action as indicated in the directive, or a fundamental disagreement with the emphasis attached to a particular objective as indicated in the directive.

It should be noted that the policy directive adopted at a meeting of the Federal Open Market Committee is usually in general terms and that, without changing the wording of the directive, the Committee may from time to time modify considerably the emphasis to be placed on operations designed to implement the general policy. The shadings of opinion that enter into the formation of a policy decision provide the Manager of the System Open Market Account (who attends the meetings of the Committee) with a guide to be used in the conduct of open market operations within the framework of the policy directive adopted at that meeting.

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The policy directive of the Federal Open Market Committee that was in effect at the beginning of 1958 was the one that had been approved at the meeting on December 17, 1957. This directive called for open market operations with a view, among other things, to cushioning adjustments and mitigating recessionary tendencies in the economy. It 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 and directed that Bank:

(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.

The Federal Open Market Committee met 31 times during 1958. Of these meetings, 19 were held in Washington and 12 were held by means of telephone conference arrangements in which some members were located outside Washington. In five of the meetings held by telephone conference, policy decisions were reached, while the other seven telephone conference meetings did not involve proposals for new policy actions but were for the purpose of discussing operations being conducted within the limits of policy actions previously taken. The policy actions taken by the Committee during the year are set forth in the following pages by date of meeting.

January 7, 1958

Authority to effect transactions in System Account.

No change was made in the Committee's policy directive that specified that operations should be with a view, among other things, "to cushioning adjustments and mitigating recessionary tendencies in the economy."

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

Domestic economic activity continued to be characterized by general cyclical recession, with contraction in output at a pace comparable to that experienced in the 1948-49 and 1953-54 recessions. Gross national product in the fourth quarter of 1957 had decreased about $6 billion, annual rate, largely associated with inventory liquidation, while industrial production for December was estimated at 137, seasonally adjusted, compared with 147 a year earlier and with the narrow range of 143-146 that prevailed during the period from January through September 1957. The market for new automobiles had been disappointing to producers, with sales off sig-

nificantly from a year earlier, while repossessions on instalment sales had reached high ground and still seemed to be edging upward. However, other sales at retail picked up sharply in the latter half of December, after having started the month slowly, and department store sales, seasonally adjusted, reached a new high in that month. Construction activity in December continued at record levels, with increases in residential construction again offsetting declines in the industrial area, but unemployment rose further in that month to around 5 per cent of the total labor force. Wholesale prices showed little change in December, remaining at about the average that had prevailed since midyear, while consumer prices were reflecting advances in services and meat prices.

In the financial area, two developments had occurred since the reduction in Federal Reserve Bank discount rates in November. One of these was a sharp decline in interest rates and the other was some seasonal increase in bank loans and investments, which represented a turnaround from the contra-seasonal decreases shown for October and November. The Federal Reserve System had supplied over $1 billion of reserves to the banking system during the six weeks prior to the end of the calendar year, and those reserves had contributed to credit expansion as well as currency expansion a little in excess of seasonal estimates. In brief, recent policies designed to cushion adjustments and mitigate recessionary tendencies in the economy had established the basis for maintaining the privately owned money supply.

Analysis of the data on economic activity indicated that the current recession was attributable largely to a decline in business plant and equipment expenditures, aggravated by an inventory cycle. It was not apparent, however, whether those influences were likely to spread to consumer spending and thus produce a cumulative recession. There was uncertainty as to the probable speed of inventory adjustment, particularly by manufacturers, and there was also uncertainty as to the amount and timing of the expected increase in defense spending, although it did not seem probable that this would be a significant factor for several months. In view of the wide range of possible ways in which the recession might develop, it seemed prudent to assume that the next upturn might be a fairly long way off, to be preceded either by a continuing gradual decline or perhaps by a sideways movement after the current decline had run its course. The shift in System credit policy in the fall of 1957 had made it clear that open market operations were being directed toward assuring an adequate volume of credit for all potential borrowers with economically sound credit needs, but on the other hand System policy had not gone to the point of trying to bring about an excessive volume of free reserves.

In concluding that no change should be made in the policy directive, the Committee agreed that a slight easing in the reserve positions of banks would be desirable and that operations in the System Open Market Account should be conducted with sufficient latitude to permit this development to take place within the limits of the directive.

January 28, 1958

Authority to effect transactions in System Account.

The Committee made no change at this meeting in the wording of the directive to the Federal Reserve Bank of New York, which called for operations in the System Open Market Account directed toward cushioning adjustments and mitigating recessionary tendencies in the economy.

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

Economic decline had acquired a definite momentum at the time of this meeting, and further decreases in production, employment, and other measures of activity were in prospect. It appeared that the industrial production index for January would show a decline of 2 or 3 percentage points from December, which would put it about 8 per cent below the early 1957 level, and unemployment claims were continuing to increase.

The declines in activity during recent months had been traceable primarily to adjustments in the capital goods area, and it was pointed out that readjustments in this particular area might take

considerable time. Installation of much new capacity during the past few years had eased the supply situation enough so that for some time there had been less incentive for buyers to maintain inventories and, at this time, they were being reduced. While inventory adjustments could occur fairly quickly, the rapidity of adjustment in both the inventory and capital goods areas would partly depend on changes in other demands, including consumer demands, State and local government demands, defense demands, and foreign demands.

The free reserve position attained thus far by member banks had been of moderate size, and monetary expansion, which had paused in the latter part of 1957, had not yet been resumed. Demand for bank loans now appeared to be showing a slackening drift, reflecting a larger than seasonal decline in business loans and also liquidation of dealers' positions in Government securities financed with bank credit in December. A large Treasury financing operation was expected shortly, and, although there were prospects that reserve availability would expand in coming weeks owing to further seasonal decline in deposits and to a reduction in Treasury cash balances, it was suggested that it would be desirable to continue through open market operations at least the present degree of reserve availability until indications of monetary expansion appeared. Some members suggested a more aggressive easing immediately, believing that could be done without disturbance to the forthcoming Treasury financing. Such a policy would be consistent with the reduction in discount rates to the 2¾ per cent level that had been made at several of the Federal Reserve Banks just prior to this meeting.

In all the circumstances, the Committee concluded that, even though the level of economic activity was continuing to decline, there should be no change at this meeting in the policy of supplying reserve funds in a manner that would cushion adjustments and mitigate recessionary tendencies in the economy and that, in view of the desirability of having an "even keel" during the period of the Treasury financing, open market operations should be directed toward maintaining approximately the same condition in the money market that had existed immediately prior to this meeting.

February 11, 1958

Authority to effect transactions in System Account.

The Committee again renewed without change the policy directive that placed emphasis upon operations in the System Account with a view to cushioning adjustments and mitigating recessionary tendencies in the economy.

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

Recession in general activity had continued during the month of January and signs of leveling out were not yet at hand. The declines were again general, but they were greatest in durable goods and related industries. The length of the work week had fallen to the lowest level of the postwar period, and by mid-January unemployment had risen close to the postwar peak of 4.7 million that prevailed in February 1950. Manufacturers' new orders for December showed a 2 per cent drop from November and were down 7½ per cent over the year, with new orders for durable goods running a fifth below the previous year. Business inventory liquidation had continued in December, mainly concentrated in durable goods manufacturing, but despite such liquidation the stock-sales ratio rose further to the highest level in a decade. January retail deliveries of new automobiles were some 20 per cent lower than deliveries in the previous month or in January 1957. Preliminary estimates suggested a further decline in gross national product for the first quarter of 1958 of from $4 to $5 billion, annual rate, putting total product back to the level of the first quarter of 1957. Exports in December were down sharply after two months of stability. Favorable factors included total construction activity, which continued at close to record levels in January, and total retail sales including those at department stores.

While business loans at city banks were liquidated in a record-breaking amount during January, the banks had increased their holdings of securities since the end of November. As a result, total loans and investments rose more in December and decreased less after the turn of the year than they did in 1957 or 1956. Time de-

posits at city banks advanced even more sharply in January 1958 than in the same month of the previous year. New security issues by State and local governments were proceeding in record-breaking volume, with some issues which were deferred in 1957 now being brought to the market. Short-term interest rates had declined to the lowest levels since early 1955, while long-term rates had been somewhat firmer during the past two or three weeks. Reserves to cover credit demands had been abundantly supplied through market factors and System operations. Additions to System holdings of Government securities had been much larger in December than usual, while the January decline was smaller than usual. The result was that the reserve position of member banks had shifted from net borrowed reserves of over $300 million during the last week of November to free reserves of over $200 million in the past two weeks. Projections indicated that free reserves might fluctuate around this level during February and increase sharply, though temporarily, in the first half of March unless offset by System operations.

It was the view of the Committee that the policy that it had been following had resulted in placing the System in a quite appropriate posture. If later on there were clear indications that the recession was spiraling, more drastic action might be required. Accordingly, for the present it was felt that the Committee should continue to follow an "even keel policy tipped on the side of ease." In these circumstances, no change was made in the existing policy directive.

March 4, 1958

1. Review of continuing authorities or statements of policy.

This being 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, 1958 had assumed their duties, the Committee reviewed and reaffirmed all continuing statements of policy and authorities for operations. These included the following:

a. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

b. Operations for the System Account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

Votes for this action: Messrs. Martin, Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Shepardson, Szymczak, and Vardaman. Vote against this action: Mr. Hayes, Vice Chairman.

Mr. Hayes stated that he would vote to approve the statement if the qualifying phrase, "as a general rule," were inserted after "shall" in the second and fourth lines.

c. Transactions for the System Account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Votes for this action: Messrs. Martin, Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Shepardson, Szymczak, and Vardaman. Vote against this action: Mr. Hayes, Vice Chairman.

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

2. Authority to effect transactions in System Account.

Clause (b) of paragraph (1) of the directive was changed at this

meeting to provide that, among other things, open market transactions would be with a view "to contributing further by monetary ease to resumption of stable growth of the economy." The Committee also deleted from the directive the paragraph authorizing the sale direct to the Treasury from the System Open Market Account for gold certificates of such amounts of Treasury securities maturing within one year as might be necessary from time to time for the accommodation of the Treasury up to an aggregate amount of $500 million face amount.

Votes for these actions: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Shepardson, Szymczak, and Vardaman. Votes against these actions: none.

During recent weeks, business activity had shown indications of deepening recession. A further decline during February indicated that the Board's index of industrial production for that month would be about 10 per cent under the mid-1957 high. Employment had continued to decline and unemployment to rise. Preliminary data from a survey of plans for plant and equipment expenditures during 1958 pointed to a decrease for the year of 10 per cent, whereas a similar survey made in the fall of 1957 indicated a decline of 7 per cent. Although the housing market appeared to be holding fairly strong, the over-all summary of economic conditions at the time of this meeting was described as one of little cheer.

The volume of free reserves had increased during late February, reflecting among other factors a reduction in reserve requirements ordered by the Board of Governors of the Federal Reserve System. At the same time the Committee authorized by telegram the maintenance of a somewhat higher level of free reserves than had been contemplated at the February 11 meeting.

In the market, an expansion in the total volume of bank credit had taken place during February. Business borrowing had been sharply reduced in the past 90 days, but the banks, supplied with ample reserves, had expanded holdings of securities and loans on securities, particularly in February, in contrast with the customary seasonal reduction at that time.

The Committee's discussion of the situation disclosed considerable feeling that the policy directive should reflect a more positive approach to recovery than was embodied in the wording calling for "cushioning adjustments and mitigating recessionary tendencies in the economy." Agreement was reached on the change indicated, namely, that during the period following this meeting open market operations should be with a view to "contributing further by monetary ease to resumption of stable growth of the economy."

The Committee also discussed whether the discount rates at the Federal Reserve Banks should be reduced further from the prevailing level of 2¾ per cent, concluding that the matter should take its course at the respective Federal Reserve Banks.

Elimination from the directive of the third paragraph authorizing the sale direct to the Treasury from the System Open Market Account for gold certificates of Treasury securities up to an aggregate of $500 million resulted from the belief that under current circumstances, including the action taken by the Congress to increase the national debt limit from $275 to $280 billion, such an authorization was not likely to be used.

March 25, 1958

Authority to effect transactions in System Account.

The Committee renewed without change the directive approved at the meeting on March 4, 1958, which called for transactions in the System Open Market Account with a view, among other things, to contributing further by monetary ease to resumption of stable growth of the economy.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

Economic information presented to the Committee indicated a likelihood that industrial production during March would fall below the rate for February, which was 130 per cent of the 1947-49 average. The February figure represented a decline from 135 in December 1957 and 145 last August, which meant that in the six months from August to February industrial production had declined a little more rapidly than in the corresponding periods of early recession in 1948-49 and 1953-54. Employment had continued to decline in both manufacturing and nonmanufacturing lines, with the decrease particularly marked in durable goods industries. Unemployment had risen sharply to 5.2 million in February, the number of workers on part time had increased further, and the number working overtime had continued to decline. Meanwhile, however, both consumer and wholesale prices were appreciably higher in February than in December, reflecting principally higher prices of food products and higher charges for services. Inventory liquidation was proceeding at a rather rapid pace, while business outlays for plant and equipment were continuing downward, with no turning point yet in sight. Although consumer buying had been well sustained, the February figures on retail sales were below the same month last year and it appeared that this trend might be continuing in March.

In the securities markets, stock prices had moved up irregularly and high-grade corporate bond prices had declined slightly since late January. A more than seasonal reduction in bank loans to business had accompanied declines in economic activity and business inventories, but the banks had been increasing their investments since late in the fall of 1957 and total bank credit outstanding had increased at a season when a decrease is usual. Corporations had obtained large amounts of new capital, and borrowing by the Treasury and other Government entities had been large.

There had been a fair degree of stability in activity abroad. Although the leveling off in activity overseas had had a disproportionate impact on exports from this country, the major part of the downward adjustment in exports appeared to have been completed. Thus far, the recession in the United States had had only a limited impact on the industrialized European countries.

The record of free reserves and short-term interest rates since the last Committee meeting suggested that the degree of ease desired by the Committee had been achieved. However, there was at the same time an occasional tendency for a feeling of relative tightness to develop temporarily in the money centers. The commercial banks, generally speaking, seemed to have adequate reserves at their disposal for the expansion of credit, but it appeared that the reduced level of liquidity which came about in the late stages of the 1955-57 boom might still be exerting some dulling effect on their attitudes toward lending. Accordingly, it was regarded by some as questionable whether the commercial banking system would be an active instrument in fostering recovery until it had attained substantially greater liquidity.

In the last 130 days the System had moved on a broad front to establish a condition of credit ease. Aside from open market operations making reserves more readily available, the discount rates of the Federal Reserve Banks had been reduced in several steps from 3½ per cent to 2¼ per cent, the latest reduction having been effected in the period since the last meeting of the Committee. In addition, there had been two reductions totaling one percentage point in member bank reserve requirements against demand deposits, the more recent of which became effective for central reserve and reserve city banks on March 20, 1958, and would become effective for other member banks on April 1, 1958. The present posture of Federal Reserve policy was one of ease and it was the view of the Committee that it should continue to be such. Discussion brought out the comment that, although further discount rate reductions might possibly seem logical in view of the level of the Treasury bill and other money market rates, a change on the eve of a Treasury financing might incite undesirable speculation in the Government securities market.

While making no change in the existing policy directive, the Committee concluded that operations in the System Account should be directed toward maintaining a slightly larger volume of free reserves and money market conditions slightly easier than had been achieved since the last meeting of the Committee.

April 15, 1958

Authority to effect transactions in System Account.

This meeting of the Committee resulted in a decision to continue without change the policy directive calling for operations designed to contribute further by monetary ease to resumption of stable growth of the economy.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Robertson, Shepardson, and Szymczak. Votes against this action: none.

Data available to the Committee indicated some slowing down in

the pace of decline for total output and employment, some leveling out in trade, and maintenance of construction activity at close to record levels in value terms. In contrast, there were some developments of an expansive character in finance. While the picture domestically therefore appeared as one of more diversity or crosscurrents than earlier in the year, the over-all drift of the economy nevertheless was still plainly downward. Current statistics offered only slight basis for the hope that the saucering-out phase of the recession was at hand. After allowances for seasonal influences, the labor market continued to show further weakening, while surveys of business plans for plant and equipment expenditures reflected a further substantial projected cutback for 1958 as compared with 1957. The industrial production index for March was estimated to have declined two points further to 128, and preliminary April information indicated further output curtailment, much along the lines of the March pattern but with the possibility of some slowing. Retail trade, seasonally adjusted, was estimated to have been off another one per cent in March, manufacturers' sales and orders continued to show declines, with the fall-off much sharper in durable goods than in nondurable goods lines, and business inventory liquidation was believed to have continued in March at quite a sharp rate. At the same time, prices at wholesale and in consumer markets had risen further to late March, putting the indices a full one per cent above the December 1957 level.

In the financial area, total credit extended by commercial banks had apparently continued to expand during recent weeks, mostly in the form of short-term liquid assets. Savings of consumers held in financial form seemed to be increasing, while consumer debt had been decreasing. Business loans at banks had increased less than at this time in other recent years but corporate issues for new capital continued at a high level, as did new issues of State and local governments, and the Federal Government had become a net borrower. Deposits at banks had increased, on a seasonally adjusted basis. Short- and medium-term interest rates had shown further declines with wide variations, reflecting changes in liquidity, while long-term rates, under the influence of continued heavy borrowing in capital markets, remained firm.

Nearly $1 billion of reserves had been released by reductions in reserve requirements of member banks since February 26 and an additional $250 million had been supplied by System open market operations through April 9. Reserves had been absorbed by an increase in required reserves of about $200 million resulting from growth in deposits, a rise in currency in circulation, foreign operations, consisting principally of gold withdrawals amounting to about $400 million, and changes in float and other factors. Free reserves in the aggregate had averaged somewhat in excess of $500 million. Although country banks appeared to be well supplied with reserves, banks in New York and Chicago, and probably in some other cities, had experienced wide fluctuations in their reserve positions and had borrowed heavily in the Federal funds market. It appeared that a substantial amount of additional reserves might need to be supplied by the Federal Reserve System in the next few weeks in order to maintain a condition of ease conducive to further credit and monetary expansion.

Reports at this meeting indicated that the directors of some of the Federal Reserve Banks had been giving serious consideration to the establishment of a discount rate lower than the existing 2¼ per cent rate. With the recent Treasury financing now completed, it appeared that those Reserve Banks might act to establish a lower rate rather quickly. A further reduction in the reserve requirements of member banks was seen as a possible means of providing the additional reserves that would otherwise have to be supplied by open market operations during the next few weeks in order to maintain the present level of free reserves. If the reduction were concentrated at central reserve and reserve city banks, it would also have a tendency to relieve pressure that occasionally developed in the money centers. Taken together, it was suggested that such actions on the discount rate and reserve requirements would clearly confirm the current easing posture of monetary policy and reinforce the policy objective of assisting the recovery of the economy.

The Committee was of the view that there was no reason to change its policy directive at this time. Free reserves had averaged slightly higher during the period since the last meeting of the Committee than during the preceding three-week period, and it was agreed that this general level should be maintained. It was noted, however, that if action should be taken in the near future on both the discount rate and reserve requirements, the level of free reserves would tend to become relatively incidental, as long as the free reserve position did not decrease to an extent that might make it appear as though the System was reversing policy.

May 6, 1958

Authority to effect transactions in System Account.

The policy directive calling for operations to contribute further by monetary ease to resumption of stable growth of the economy was again renewed at this meeting.

> Votes for this action: Messrs. Martin, Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Treiber. Votes against this action: none.

Although some statistical evidence suggestive of a slowing of economic decline had been accumulating, most of the information available to the Committee at the time of this meeting indicated that the recession was still deepening and that a bottom was yet to be established. Among other things, the index of industrial production was estimated to have dropped another two points to 126 in April, manufacturers' sales and new orders were off again in March to about the same extent as in February, business inventory liquidation in March was found to have amounted to a further $700 or $800 million, seasonally adjusted, and estimates of new construction outlays had recently been revised downward due to lower private expenditures. Unemployment in April decreased less than seasonally, initial claims for unemployment insurance were still running at quite high levels, and the number of continued claims of those unemployed for 15 weeks or more was double that recorded in earlier postwar recessions. At the same time, the average of wholesale prices was holding stable and the average of consumer prices was still rising.

Since the preceding meeting of the Committee, there had been a further reduction to 1¾ per cent in the discount rates of most of the Federal Reserve Banks along with a further reduction of one-half percentage point in reserve requirements against demand deposits at central reserve and reserve city banks, while open market operations had been such as to maintain free reserves generally exceeding $500 million. Financial developments during this period were influenced by the additional availability of bank reserves and by the activities of banks in endeavoring to put their available funds to use. Demands on capital markets continued heavy. In the five weeks ended April 30, banks in leading cities showed a further increase of over $2.5 billion in total loans and investments, and it appeared that during the five months since the end of November, a period in which bank credit usually declines, total loans and investments of all commercial banks may have increased by $7 billion or more. The increase in April reflected almost wholly additions to holdings of United States Government securities, particularly the new Treasury five-year notes. Demand deposits adjusted at city banks increased during the five weeks prior to April 30 by about $1,200 million, compared with a growth of $750 million in the same period of 1957, while time deposits continued to increase at a much faster pace than the previous year.

The pattern of economic and financial developments caused the Committee to conclude that the prevailing policy of ease should be continued and that no change should be made in the outstanding policy directive.

May 27, 1958

Authority to effect transactions in System Account.

The Committee again continued without change the policy directive providing for operations in the System Account with a view to contributing further by monetary ease to resumption of stable growth of the economy.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Fulton, Irons, Leach, Robertson, Shepardson, Szymczak, Vardaman, and Deming. Votes against this action: none.

The composite of current economic indicators reported at this meeting suggested that the recession in economic activity had been leveling off and that a bottom to the decline might be in the making. The decline in industrial production, over all, seemed to have been checked in May, and a number of other indicators, including retail sales, personal income, residential building, and new orders received by durable goods manufacturers, likewise appeared to have stopped

receding or to have risen slightly. While inventory liquidation had probably been continuing in the aggregate, some key material markets suggested a lessening in such liquidation. Also, although initial and continued unemployment compensation claims were still very high, the trend was indicative of a little firmer labor market. March figures for exports had risen from February, while imports continued to be well maintained at the moderately reduced level of the first two months of the year. In agriculture, the income outlook was quite favorable. Capital market activity had been well sustained and banking developments were in the direction of a strengthening of business and individual liquidity positions. As to prices, a degree of flexibility in the area of industrial commodities seemed to be emerging gradually, especially at the wholesale level.

The Committee recognized that each of the favorable factors needed qualification and that a number of other factors in the current situation raised questions about the imminence of recovery. Furthermore, there were reports of a substantial speculative interest in the Treasury issues maturing in June, a factor that suggested the need for close attention in view of the forthcoming Treasury refunding operation. On balance, therefore, it seemed prudent to view the forthcoming period as one of gradual testing, with the realization that on the basis of past cyclical patterns the period of testing might last for some time.

Short-term interest rates recently had declined to new low levels while long-term rates, after declining somewhat in April, rose slightly in early May. New security financing by corporations and by State and local governments continued in large volume. Recent figures showed that total loans and investments of all commercial banks increased by about $4 billion in April—a larger growth than had previously been estimated—thus bringing the total increase since the end of November 1957 to above $8 billion. Marked increases occurred during April in both loans and investments at country banks and in holdings of investments by city banks, where declines in business loans were offset by increases in loans on securities. In May, the decline in total loans and investments at city banks had been smaller than usual at that time. Demand deposits adjusted and currency outside banks showed a seasonally adjusted increase of $900 million in April following similar increases in February and March, with the result that the total at the end of April was the largest since July 1957 and was equal to the total at the end of April 1957. Time deposits, other than interbank, were about $7 billion larger than at the same time in 1957, while interbank and United States Government deposits had also risen to higher levels than a year earlier. In addition to the growth in the volume of deposits, the rate of turnover of demand deposits had increased in April, contrary to the usual seasonal trend, and was about the same as in April 1957. Free reserves held close to $500 million during May, substantial drains on reserves attributable to the continued gold outflow and to a larger than seasonal increase in currency in circulation having been largely offset by additional reserves supplied through open market operations and other factors.

Estimates presented to the Committee indicated that reserve needs would be rather large in June and the first half of July, arising in part from seasonal factors and from a larger than usual increase in Treasury deposits at banks. Therefore, in the absence of System action free reserves might generally average much less than the levels that had prevailed recently.

In the light of these estimates and related factors, including the imminent and sizable Treasury financing operation, the Committee considered how best to implement and maintain the current posture of monetary ease without further depressing Treasury bill rates. It was the consensus that no change should be made in the language of the policy directive and that operations in the System Account should be directed toward maintaining an even keel over the ensuing period. In terms of approach, this contemplated that the Account Management would place emphasis on the tone and action of the market and the course of credit developments.

June 17, 1958

Authority to effect transactions in System Account.

The directive was renewed without change, continuing the policy of contributing further by monetary ease to resumption of stable growth of the economy.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Fulton, Irons, Leach, Mangels, Mills, Robertson, and Szymczak. Votes against this action: none.

Economic information available for this meeting was generally on the encouraging side and was confirmatory of the report at the May 27 meeting that bottoming out of recession was in fact occurring. However, analysis of the data suggested that the haze obscuring the outlook had not suddenly lifted, and that it was the better part of wisdom not to conclude as yet that a recovery pattern had definitely taken form. On the other hand, it could not be denied that there was a possibility that an accelerating recovery movement was now shaping up.

High levels of consumer and Government demands seemed to be roughly offsetting recessionary forces generated in the investment area of the economy. Heavy demands on capital markets, including a Treasury bond offering for cash, had been met in part by substantial expansion in bank holdings of securities and loans on securities. Additional reserves had been supplied by System purchases of securities, but on balance free reserves had been somewhat lower than in May. The money market had continued relatively easy until the week of this meeting, but with the mid-June needs for funds for taxes, dividends, and other payments, and with settlement for the recent Treasury offering of securities, it seemed clear that substantial financing needs would have to be met by the banking system during the next two or three weeks which would include the July 4 holiday demand for currency.

Despite the encouragement expressed by most Committee members regarding the business outlook, it did not appear that the time had arrived for backing away from the Committee policy of outright monetary ease or for creating a public impression that the Committee might be backing away from it. There was general agreement that over-all Federal Reserve credit policy should not be changed at this time and that, during the next three weeks, the System should stay about where it was. However, a minority suggested that, apart from open market operations, it might be desirable for some of the need for additional reserves during the immediate future to be met by a further reduction in reserve requirements for member banks. Another and contrasting variation from the general view was that reserves had been supplied in over-generous amounts during the past two months and that further injections to maintain the recent level of around

$500 million of free reserves would abet speculation in the Government securities market and create excessive liquidity.

Consideration of the foregoing factors resulted in a decision that at this meeting the Committee should make no change in Federal Reserve credit policy and that for the next three weeks no action should be taken to cause the tone of the market to get materially easier or tighter.

July 8, 1958

Authority to effect transactions in System Account.

No change was made at this meeting in the Committee's directive calling for open market operations with a view, among other things, to contributing further by monetary ease to resumption of stable growth of the economy.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

A summary of the economic data presented at this meeting was that performance of the economy in May and June had been better than had been anticipated. The index of industrial production over those two months had risen two points, and final data might show the rise to be three points. Gross national product for the second quarter was currently estimated to be at least moderately higher than in the first quarter. Whether an abrupt turnabout of activity was taking place or whether the extended improvement merely reflected a temporary rebound of production that had been far below consumption was yet to be determined. However, the odds seemed to favor more than a rebound improvement.

An important feature of the recent strengthening was that it represented a composite of small improvements over a wide range of activities, rather than dominant activity in one or two areas. One big uncertainty in the situation was the possibility of cyclical downturn in European business activity and of a new surge in inflationary forces in the Latin American and Far Eastern countries. However, the evidence at this time did not warrant the inference that European recession was likely to become a force affecting adversely United States and world trade developments, although it was apparent that developments in those markets would require close observation in the months ahead.

On the financial side, the most striking development since the June 17 meeting had been severe pressure on the Treasury bond market. The underlying feature had been the large commitments in Treasury bonds made by temporary holders, many for pure speculation, induced by expectations of further declines in interest rates, and the attempt to close out those commitments at a time when the money market was under adverse pressure because of exceptionally heavy seasonal liquidity demands. This had called for exceptional amounts of Federal Reserve credit, and the increase in required reserves in the five weeks ending July 2 had been one of the largest on record for a period of that length. System open market operations had supplied $1.4 billion of additional reserve funds, and purchases of Government securities for Treasury investment accounts had been made, notwithstanding which interest rates rose. The Treasury bond market had been notably weak under the influence of the closing out of speculative commitments, and yields on such securities had risen sharply. In addition to the present disturbed atmosphere of the Government bond market, it was noted that important Treasury financing operations were in prospect between this and the next meeting of the Committee.

While some members of the Committee felt that the likelihood of a rapid upturn in economic activity argued for less ease, the Committee reached the conclusion that, on balance, there should be no change in policy at this time and that the directive should be renewed in its existing form calling for continued monetary ease.

July 18, 1958

Authority to effect transactions in System Account.

The Federal Open Market Committee authorized the Federal Reserve Bank of New York to purchase for the System Open Market Account in the open market this afternoon $50 million or less of Government securities at the discretion of the Manager of the System Open Market Account on scale wherever the Manager deemed it appropriate in order to steady the market.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Shepardson, and Szymczak. Mr. Vardaman, who was not present at the meeting, when informed of the action stated that he concurred. Votes against this action: Messrs. Mills and Robertson.

Authority was granted to the Federal Reserve Bank of New York to purchase for the System Open Market Account in the open market, without limitation, Government securities in addition to short-term Government securities.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mills, Robertson, Shepardson and Szymczak. Mr. Vardaman, who was not present at the meeting, when informed of the action stated that he concurred. Votes against this action: none.

The action set forth in the first paragraph of this entry was taken at a meeting of the Federal Open Market Committee, held by telephone conference in the early afternoon of July 18, and was based on a report by the Manager of the System Open Market Account that a condition was developing in the Government securities market which, in his judgment, was close to a disorderly condition although it had not yet actually reached that point. His recommendation was that purchases of securities during the afternoon of $50 million or less be authorized for the purpose of steadying the market. After considering the recommendation in the light of the existing conditions in the market and of the Committee's continuing operating policy providing that open market operations shall be "solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets)," the Committee authorized the purchase of Government securities as indicated.

Messrs. Mills and Robertson voted against this authorization on the ground that at this time no one contended the market was disorderly and therefore there was no basis for intervention. In addition, they felt that the proposal to enter the market on a limited basis (as distinguished from action sufficiently massive to do the job) was unwise and would do very little to restore confidence in the market. Furthermore, they felt that if later there should be a disorderly market, the correction of it would have been seriously handicapped by

temporizing and fluttering around the edges of the market with minor purchases at this time.

As the System Account was starting to put this authorization into effect, further developments in the market caused the Manager of the Account to report (again by telephone conference) that he would now have to call the market disorderly. After consideration of the Manager's detailed report covering these developments, the Committee approved by unanimous vote the action set forth in the second paragraph of this entry, which authorized the purchase of Government securities in the open market, without limitation. It was understood that the authorization was made for the purpose of correcting a disorderly market and included the purchase of "rights" and when-issued securities, purchase of which was precluded during a period of Treasury financing under one of the Committee's continuing policies, last renewed at the meeting on March 4, 1958. In taking this action, the Committee also authorized the immediate release of an announcement reading as follows:

In view of conditions in the United States Government securities market, the Federal Open Market Committee has instructed the Manager of the Open Market Account to purchase Government securities in addition to short-term Government securities.

July 23, 1958

Authority to effect transactions in System Account.

The Committee authorized the Federal Reserve Bank of New York to engage in a transaction that would include an offsetting purchase and sale of securities in the amount of $30 million for the purpose of altering the maturity pattern of the System's portfolio.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

The purpose of this action, taken during a telephone conference meeting, was to permit the System Account to complete a specific transaction for a foreign account in a manner that would result in adding to the amount of System Account holdings of Treasury bills that would mature on July 31, 1959. Thus, the Committee would be in position to let these bills run off at that time and to help absorb the large volume of reserves that would be released to the market on August 1 because of purchases for System Account on a when-issued basis of new Treasury certificates due to be issued on that date. These purchases had been made under authorization by the Committee on July 18 of purchases for the purpose of correcting a disorderly market.

The foregoing action was recognized as a departure from the Committee rule, in effect since December 1953, prohibiting "swap" transactions. It was authorized only because of the unusual circumstances of the past few days and because it was deemed desirable to have as large a runoff of bills as possible within the next few days when large amounts of reserves would be released to the market.

July 24, 1958

Authority to effect transactions in System Account.

The Committee terminated the authority given to the Federal Reserve Bank of New York on July 18, 1958 to purchase for the System Open Market Account in the open market, without limitation, Government securities in addition to short-term Government securities.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

The Government securities market had steadied in the period since July 18, when, because of disorderly conditions then existing in the market, the Committee had authorized the purchase of Government securities in addition to short-term securities. Accordingly, at this telephone conference meeting, the July 18 authorization was terminated with the understanding that, if conditions in the market should seem to require it, another meeting of the Federal Open Market Committee would be called to consider what, if any, further action should be taken.

July 29, 1958

Authority to effect transactions in System Account.

The wording of the Committee's directive was changed at this meeting to delete the clause that had been in effect since March 4, 1958, and which called for operations that would contribute further by monetary ease to resumption of stable growth of the economy, and to replace that clause with an instruction to the Federal Reserve Bank of New York that operations for the System Account were to be with a view, among other things, to recapturing redundant reserves.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, and Vardaman. Votes against this action: none.

At this meeting reports of economic developments made it reasonably clear that April had marked the recession trough and May the first month of revival in economic activity. Evidences accumulating for June and July confirmed the broad range of increased industrial output that had been reported at the July 8 meeting of the Committee. In addition to the statistical data, indications of improvement in business sentiment suggested that an uptrend in economic activity might now be under way. The growing evidences of business improvement, together with the possibility that the degree of monetary ease prevailing in recent months might produce a very rapid expansion in bank credit and the money supply, raised the question whether the Committee should consider some modification of the degree of ease that had developed in recent months.

During the two weeks preceding this meeting, System operations had been largely concerned with correcting disorderly developments in the Government securities market, rather than with current economic and credit needs. This was in accordance with the authorization given by the Committee at a special meeting on July 18 to purchase Government securities without limitation for the purpose of correcting a disorderly market.

In the five-day period from July 18 to July 23, the System Account had purchased $1.2 billion of securities, largely when-issued securities involved in the Treasury financing, but also a small volume of other notes and bonds. These purchases had been made under the specific authorization given on July 18 and within the general framework of the Committee's continuing operating policies that had been in effect since 1953, and which were last reaffirmed on March 4, 1958. Payment for the securities involved in the Treasury financing would result in a substantial rise in the volume of member bank reserves on August 1, over and above the level that had been maintained during the past seven or eight months, and the Committee gave consideration to what would be the effect of such a substantial increase in the availability of reserves. In light of the evidence of improvement in the economic situation, which suggested that the directive that had been in effect since March 4 was no longer appropriate, and in view of the decision of July 24 that the need for action to correct a disorderly condition in the Government securities market had passed, the conclusion was reached that for the next three weeks the problem for the Committee would be one of absorbing the redundant reserves that would be entering the market, in so far as that could be done consistently with an orderly market in Government securities. Thus, the Committee modified its directive in the manner indicated to require that operations be conducted with a view to recapturing redundant reserves that were expected to be released to the market on August 1.

August 4, 1959

Authority to effect transactions in System Account.

The Committee agreed that for the present, having recaptured redundant reserves, the policy to be followed with respect to operations for the System Open Market Account should be one of keeping from having redundant reserves.

> Votes for this action: Messrs. Martin, Chairman, Balderston, Irons, Leach, Mangels, Mills, Shepardson, Vardaman, Allen, and Treiber. Votes against this action: none.

The recapture of redundant reserves having been effected, pursuant to the policy directive issued at the meeting on July 29, 1958, this action (taken in a meeting held by telephone conference) was for the purpose of giving the Federal Reserve Bank of New York and the Manager of the System Open Market Account an indication as

to general policy to be followed until the next meeting of the Committee.

August 19, 1958

Authority to effect transactions in System Account.

The policy directive of the Federal Open Market Committee was changed at this meeting by adopting wording for clause (b) of paragraph (1) to provide that, among other things, transactions be with a view "to fostering conditions in the money market conducive to balanced economic recovery." This wording superseded that adopted at the meeting on July 29, which called for operations with a view "to recapturing redundant reserves" and which was supplemented by the action taken on August 4 designed to keep from having redundant reserves return.

> Votes for this action: Messrs. Martin, Chairman, Balderston, Fulton, Irons, Leach, Mangels, Shepardson, Vardaman, and Treiber. Votes against this action: none.

Information presented at this meeting showed that vigorous revival in domestic economic activity was taking place. Similarly, in Canada revival appeared to be under way. In Europe, production trends had been mixed, with contractions, where occurring, apparently associated with inventory adjustment.

In the United States the Board's index of industrial production through July had risen at least seven points or 6 per cent, from April, and it seemed possible that late data might raise the amount of advance. Regional reports bore out the national trend, although some important areas of the country were still not experiencing much recovery and the total number of unemployed persons nationally remained disturbingly large.

Domestic financial developments since late July included further expansion in bank credit, which had risen by $7 billion in the first seven months of the year. Financial markets had been influenced by the stream of economic data and corporation reports indicating that vigorous recovery was under way; by indications and rumors that Federal Reserve policy might be shifting away from ease (the Board of Governors of the Federal Reserve System had increased margin requirements for purchasing and carrying listed securities from 50 per cent to 70 per cent, effective August 5, 1958); and by a flow of banking, monetary, and Treasury deficit data pointing to a sharp increase in the cash balance position of the economy.

In considering policy, the Committee was faced with the fact that the large Federal Government deficit would have to be financed during a period characterized by broadly spread revival of productive activity and incomes and an abnormal expansion in privately held cash balances, and by the emergence of an inflationary psychology in the stock market and other financial markets that could easily spill over into commodity and real estate markets. Notwithstanding the substantial numbers of unemployed persons, the data presented indicated that the rate of expansion in the money supply in the immediate future should be tempered and that operations for the System Open Market Account should move in the direction of lower free reserves without seriously disrupting the Government securities market. The fact that seasonal influences would be working in this direction through the Labor Day week end suggested that, without too much pressure, the System Account might be able to move in the direction of the elimination of free reserves by the time of the next meeting.

In terms of the policy directive, the objectives sought by the Federal Open Market Committee were encompassed in the amended wording of clause (b) to provide that operations should be with a view, among other things, "to fostering conditions in the money market conducive to balanced economic recovery." This wording of the directive may be compared with that in effect from the March 4, 1958 meeting until July 29, which called for open market operations "contributing further by monetary ease to resumption of stable growth of the economy," and which had been temporarily inoperative from July 18 to July 24 in view of the special authority to make purchases for the purpose of correcting a disorderly condition in the Government securities market.

In its discussions of the policy directive the Committee also considered the market structure of interest rates, noting that the discount rate of the Federal Reserve Bank of San Francisco had been increased from 1¾ per cent to 2 per cent effective August 15, 1958. The reasons for this rate increase, which are presented in the section of this report dealing with policy actions of the Board of Governors of the Federal Reserve System, were reviewed at this meeting, and the

rate increase was considered to be consistent with the action taken by the Open Market Committee in deciding to move toward reduced reserve availability.

September 9, 1958

Authority to effect transactions in System Account.

The directive of the Committee was renewed without change, continuing the policy of fostering conditions in the money market conducive to balanced economic recovery.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: none.

Since the August 19 meeting of the Committee, reserve availability had declined steadily with a minimum of disturbances in the Government securities market. Despite the reduction in reserve availability, the market had been more calm during the past few days than at any time since June. A better tone also had developed in the market for corporate and municipal bonds.

Economic data presented showed that domestic recovery in output, income, and consumption had been vigorous and that it held promise of continuing to be vigorous over the period ahead. The August index of industrial production was estimated to have moved up two points further, with the widespread gains in output extending through durable goods and nondurable goods lines.

Financial developments of recent weeks had included those associated with an upward adjustment of interest rates—long-term, medium-term, and short-term. Several Federal Reserve Banks had brought their discount rates up to the 2 per cent level made effective at the Federal Reserve Bank of San Francisco on August 15. It was difficult to judge the extent to which the rise in interest rate levels reflected a basic shift in credit demands relative to supply of savings, and the extent to which they reflected the influence of the recent shift in System policy to less availability of reserves, but each had exerted an influence. The aggregate amount of credit supplied during the year had been large and prospects pointed to an increase in private borrowing along with the heavy Treasury deficit.

Discussion of recent developments showed differences of views as to the certainty of continued economic recovery and as to the degree to which credit policy should move toward further limitation of reserve availability over the next several weeks. There was general agreement, however, that for the immediate future, during which another Treasury financing operation would occur, operations for the System Account should aim at maintaining substantially the same tone in the money market as prevailed at the time of this meeting. This objective could be sought within the wording of the directive that had been adopted at the meeting on August 19, which called for operations fostering conditions in the money market conducive to balanced economic recovery, and the directive was thus renewed without change.

September 30, 1958

Authority to effect transactions in System Account.

At this meeting, the directive was again renewed without change, thus continuing the policy adopted on August 19, 1958, of fostering conditions in the money market conducive to balanced economic recovery.

Votes for this action: Messrs. Martin, Chairman, Balderston, Fulton, Irons, Mangels, Mills, Robertson, Shepardson, Szymczak, Erickson, and Treiber. Votes against this action: none.

Since the preceding meeting of the Committee, discount rates at additional Federal Reserve Banks had been raised to a uniform level of 2 per cent. An even situation had been maintained in the money market, which had been generally firm. At the same time, financial markets appeared to be discounting possible inflationary developments. Thus, with re-emergence of inflationary expectations, stock and bond yields developed a relationship similar to that which prevailed for a brief period in mid-1957, when a psychology of creeping inflation was also dominant in financial markets.

At this meeting, the Committee considered in detail the currently developing economic situation, with its rapid expansion in industrial production while unemployment figures remained relatively high. In the face of uncertainties as to whether the recovery would be sustainable, monetary policy was discussed in terms of the recent sharp rise

in interest rates, which some considered to be excessive in view of the basic supply and demand factors in the credit market. Considering the importance of curbing inflationary and speculative developments before they gained headway, attention was focused on the extent to which expansion of the money supply should be limited at this time as a means of carrying out the Federal Reserve's responsibility for maintaining in a growing economy reasonable stability of the value of the dollar as well as in employment. One suggestion was that the appropriate course would be to permit further expansion of credit and the money supply only on terms that would indicate the System's continuing awareness of potential inflationary risks and its determination to prevent them from stimulating speculative excesses in the use of credit. The conclusion reached by the Committee was that operations in the immediate future should try to maintain an even keel in the market and that no change in the policy directive was necessary. This was based on the view that no further increase at this time in the degree of restraint was favored, nor on the other hand was there a desire to ease the market from its present position.

October 21, 1958

Authority to effect transactions in System Account.

No change was made at this meeting in the Committee's directive that policy should be directed toward fostering conditions in the money market conducive to balanced economic recovery.

Votes for this action: Messrs. Balderston, Chairman pro tem, Fulton, Irons, Leach, Mangels, Mills, Shepardson, Szymczak, and Treiber. Votes against this action: none.

Continuing economic recovery was reported at this meeting. Gross national product for the third quarter was estimated at $440 billion, up $11 billion from the second quarter. Industrial production into October was rising further and broadly, new construction activity in September had been close to record levels, employment was rising and unemployment declining, and personal incomes were rising. Wholesale price averages had been stable for several months with easing of farm product prices offsetting strengthening tendencies in industrial materials and rises in some fabricated items. Latest news from abroad indicated some extension of recession in the principal industrial countries with, however, activity still fairly high in most such areas.

Bank credit expansion in recent weeks had been larger than in the corresponding period of 1957 but less than in some other years. In capital markets, a shift from fixed return assets to equities seemed to be continuing. Margin requirements on listed securities had been increased effective October 16, 1958. Slackened monetary expansion along with Treasury deficit financing and general economic recovery had been possible because of previously accumulated liquidity. Further monetary expansion other than seasonal had not been needed to finance economic recovery. However, the total of economic events and the prospective borrowing needs of the Federal Government indicated a likelihood of growing credit demands in the near future. In addition, an outflow of gold was persisting. It was estimated on the basis of customary seasonal currency and deposit growth, and with some allowance for a further gold outflow, that from the time of this meeting to the end of 1958 there would be a need for additional bank reserves totaling about $1.3 billion, a need that could be met mainly through open market operations without varying the degree of restraint on credit expansion.

At this meeting, the Committee reviewed in detail the level and structure of interest rates and considered the credit actions that would help keep investment and saving in balance. The discount rates of the Federal Reserve Banks currently were out of line with market rates, and the suggestion was made that an increase in discount rates would be desirable in order to remove the incentive for member banks to obtain reserves by borrowing at the Reserve Banks instead of by selling securities in the market.

The conclusion of the Committee was that in present circumstances it would be undesirable to aim toward a greater degree of restraint on reserve availability through open market operations, especially if an increase in discount rates at the Federal Reserve Banks were to be made at the same time. The directive was, accordingly, again renewed with its provision for open market operations that would foster conditions in the money market conducive to balanced economic recovery.

November 10, 1958

Authority to effect transactions in System Account.

The Committee again reaffirmed its policy of fostering conditions in the money market conducive to balanced economic recovery.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

During the three weeks preceding this meeting, in which seasonal demands for credit were present, the System Open Market Account had been fairly active in supplying reserve funds to the market with a view to achieving the objectives agreed upon by the Committee at the meeting on October 21, namely, the maintenance of about the same degree of restrictive pressure in the market that had existed at the time of that meeting. Free reserves had averaged somewhat less than $100 million, and the money market atmosphere had been generally firm. During this period, the discount rates of all Federal Reserve Banks had been increased from the 2 per cent level to 2½ per cent—a rise that conformed to the prevailing money market rate structure and appeared to have caused no further adjustment in the market.

Economic indicators at the time of this meeting were still rising, although there was more diversity than had been shown in late summer and early autumn and the over-all rate of rise seemed to have slowed somewhat. The October industrial production index was estimated to have risen one index point, a smaller rise than had been projected earlier. On the other hand, construction activity had gone up in October to an all-time high, with advances shown in all major categories of private construction as well as public construction. Data for United States exports during September had shown a sharp fall, but imports had risen. Stability to modest recession in activity in Europe was reported, along with a leveling out in Canadian recovery. The unevenness shown by economic indicators in recent weeks was occasioning in various quarters re-appraisals of the outlook, with some toning down of optimistic projections because of inability to foresee forces that would convert recovery into a period of expansionary boom. However, the more moderate rate of rise was believed by some to provide a better basis for expansion than if the rapid autumn rise had continued.

Sharp increases that had occurred in productivity during the past three months were being reflected in corporate profits and not in lowered industrial prices, and they thus provided support to demands for wage increases. There appeared to be little prospect for abatement of the persistent upward pressures on industrial prices notwithstanding the existence of unused resources, including considerable plant capacity not being utilized and substantial numbers of unemployed persons. Under these circumstances, a monetary policy on the side of restraint appeared to be appropriate and it did not appear that such restraint would retard sound recovery and growth in the economy.

The conclusion of the Committee was that the System Account should seek during the period immediately ahead to maintain conditions in the market about as they were at present, believing that the moderate degree of restraint that had existed for the past several weeks was appropriate under the circumstances and that it could be applied within the terms of the directive to the Federal Reserve Bank of New York that had been in effect since August 19.

December 2, 1958

Authority to effect transactions in System Account.

The Committee made no change at this meeting in the directive that had been in effect since August 19, 1958, which contemplated a policy directed toward fostering conditions in the money market conducive to balanced economic recovery.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: none.

During the three weeks preceding this meeting, the System Account had provided additional reserves to the market and member bank borrowing from the Federal Reserve Banks had risen on some days in the past week to more than $1 billion. These supplies of reserve funds had been sufficient to meet seasonal growth in currency and an increase in required reserves, although free reserves had declined to a nominal level.

Recovery in domestic economic activity was continuing on a broad basis although, as indicated at the November 10 meeting, there recently had been indication of a slowing in the rate of expansion. The weight of statistical evidence continued on the side of fairly well sustained momentum upward. More recently, some indication of improvement in the unemployment situation had been evident, and the number of labor market areas classified as substantial surplus areas had been reduced during November. Over all, it was apparent that the domestic recovery that had shown up during the summer months had now gone far enough to be on the verge of a new expansion period, with the possibility that the rise in activity would carry major indexes of activity into new high ground.

Developments in the financial area had shown no particularly striking features during the past month, although gyrations in the stock market had continued. Bond yields had declined somewhat in November, while short-term money rates had continued to rise. Although expansionary forces in the credit area had not been vigorous during recent weeks, the basis for renewed expansion continued to exist in the broadening economic recovery and the continuing Government deficit.

The policy discussion by the Committee pointed to some increase in the degree of restraint that should be exerted, with the proviso that due consideration must be given to the financing problems of the Treasury. It was suggested that there was enough flexibility within the Committee's general policy to allow seasonal forces to exert an influence in the direction of some further reduction in reserve availability, perhaps moving in the direction of net borrowed reserves. The Committee's conclusion contemplated letting market developments tend to increase restraint within limits consistent with the policy directive which, as renewed at this meeting, continued to provide for open market operations "fostering conditions in the money market conducive to balanced economic recovery."

December 16, 1958

Authority to effect transactions in System Account.

The Federal Open Market Committee changed its policy directive at this meeting by adopting wording for clause (b) of paragraph

(1) to provide that, among other things, transactions be with a view "to fostering conditions in the money market conducive to sustainable economic growth and stability." It was the Committee's view that at this time the emphasis should be on preventing expansion at an unsustainable rate.

Votes for this action: Messrs. Martin, Chairman, Fulton, Irons, Leach, Mangels, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: Mr. Hayes, Vice Chairman.

Since the recession's low in April 1958, recovery in economic activity had been remarkably good. Gross national product, personal income, retail trade, residential construction activity, manufacturers' new orders, industrial production, freight carloadings, and various other economic indicators had increased about as much in that seven-month period as in the corresponding seven-month periods of cyclical recoveries following earlier postwar contractions. The decline had been somewhat deeper during the recent recession than in the preceding two recessions, but it had been briefer and the subsequent recovery more rapid than in other postwar and prewar cycles. Even though peak activity levels had not been re-attained at the time of this meeting, they were sufficiently close at hand to direct attention to the problems to be considered in a period of renewed economic expansion.

Money and credit markets had been calm during the month preceding this meeting in the face of the vigorous economic recovery, the rather heavy financing operations of the Treasury, the liquidity demands customary at this season of the year, and a moderate tightening of bank reserve positions. Interest rates had fluctuated moderately, close to the increased levels reached earlier in the autumn. Firming of rates during the two weeks immediately preceding this meeting had not been as great as customary in December. In the first half of 1958, when reserves were freely available, total loans and investments of member banks had expanded sharply. Since midyear, a period in which availability of reserves had been reduced, loans and investments of New York City banks had declined, those of reserve city banks had increased only slightly, and those of country banks had expanded by much larger amounts than in the corresponding period of either of the two preceding years. In total, bank credit

since midyear had shown further expansion and by a greater than seasonal amount. Reserves to provide the basis for this credit had been largely supplied through System open market operations since August, when the volume of free reserves had been reduced sharply.

The discussion at this meeting of economic and financial developments indicated a consensus favoring a move in open market operations towards somewhat greater restraint, but a very moderate move in that direction. A majority of the Committee also felt that the policy directive that had been adopted at the meeting on August 19, and which had continued in effect since that time without modification, should be changed to delete the word "recovery" and to put emphasis on preventing expansion at an unsustainable rate. Specifically, it was felt by a majority of the Committee that the instruction to conduct System Account operations "conducive to balanced economic recovery" was somewhat out of date, and there was agreement on a modification in clause (b) of the first paragraph of the directive to provide for operations with a view "to fostering conditions in the money market conducive to sustainable economic growth and stability." Within this wording, it was believed that a move toward somewhat greater restraint on the availability of reserves would be appropriate.

In voting against the change in wording of the directive, Mr. Hayes expressed himself as feeling that a move toward further restraint was premature at this stage of the recovery and might suggest to the public a policy of progressive tightening and set off an exaggerated market reaction. Apart from questioning the desirability of further restraint at this time, Mr. Hayes suggested that, if the Committee believed that policy should be more concerned with a developing threat of inflation than with recovery and that it should make a major effort to prevent such inflation by credit restraint, the directive should be made clear on that particular point.

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The Open Market Committee's directive in effect at the beginning of 1958 called for operations with a view to cushioning adjustments and mitigating recessionary tendencies in the economy. This was changed at the March 4 meeting to provide that transactions should be with a view to contributing further by monetary ease to resumption of stable growth of the economy. The next change in the directive was made on July 29, but during the period July 18 to July 24 the terms of the instruction adopted March 4 were temporarily superseded when the Committee gave a special authorization for the System Account to purchase Government securities, without limitation as to amount or maturity, for the purpose of correcting a disorderly condition in the Government securities market. That special authority having been terminated on July 24, the directive was modified at the meeting on July 29 to specify that operations should be with a view to recapturing redundant reserves that were expected to be released to the market August 1. A further instruction adopted on August 4, by which time the redundant reserves had been recaptured, called for keeping from having redundant reserves return. At the August 19 meeting, the directive was changed to provide for operations fostering conditions in the money market conducive to balanced economic recovery. This wording remained unchanged until the meeting on December 16, when it was modified to an instruction that operations be with a view to fostering conditions in the money market conducive to sustainable economic growth and stability. The form in which the directive was in effect at the end of 1958 provided an instruction to the Federal Reserve Bank of New York, until otherwise directed by the Committee;

(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 fostering conditions in the money market conducive to sustainable economic growth and stability, 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.