

FORTY-FIFTH  
ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1958

## DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1958

Period	Action	Purpose of action
January	Limited net reduction in holdings of U. S. Government securities to \$900 million, more than half of which represented securities held under repurchase agreement at end of year. Member bank borrowings declined to an average of \$450 million.	To ease reserve positions by absorbing only part of the reserves made available by seasonal factors affecting bank reserve positions.
January	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To recognize that dangers of excessive use of credit for stock market speculation had subsided, since stock prices and the volume of credit in the stock market had declined to levels near or below those prevailing at the time of the previous increase in requirements.
January-February	Reduced discount rates from 3 to 2½ per cent at 11 Reserve Banks.	To reduce further the cost of borrowing from the Reserve Banks and increase further the availability of bank reserves in order to encourage bank credit and monetary expansion conducive to resumed growth in economic activity.
February	Reduced reserve requirements on demand deposits from 20 to 19½ per cent at central reserve city banks; from 18 to 17½ per cent at reserve city banks; and from 12 to 11½ per cent at country banks, thus freeing an estimated \$500 million of reserves.	
March	Reduced discount rates from 2¾ to 2¼ per cent at 11 Reserve Banks and from 3 to 2¾ per cent at one Reserve Bank.	
March	Reduced reserve requirements on demand deposits from 19½ to 19 per cent at central reserve city banks; from 17½ to 17 per cent at reserve city banks; and from 11½ to 11 per cent at country banks, thus freeing an additional \$500 million of reserves.	
February-Mid-April	Purchased about \$450 million of U. S. Government securities. Member bank borrowings declined further to an average of about \$180 million.	
April	Reduced reserve requirements on demand deposits from 19 to 18 per cent (in two stages) at central reserve city banks and from 17 to 16½ per cent at reserve city banks, thus freeing a total of about \$450 million of reserves.	To supplement previous actions to encourage bank credit and monetary expansion and resumed growth in economic activity and to offset current gold outflow.
April-May	Reduced discount rates from 2¼ to 1¾ per cent at all Reserve Banks.	
Mid-April-June	Purchased outright about \$1.7 billion net of U. S. Government securities. Member bank borrowings declined further to an average of \$100 million at the end of June.	

Period	Action	Purpose of action
July-early August	Bought a small volume of U. S. Government securities other than short-term issues and a large amount of securities involved in a Treasury refinancing. Promptly thereafter reduced Treasury bill holdings substantially.	To correct disorderly conditions in the Government securities market, to facilitate the Treasury refinancing, and then to recapture the bank reserves created by the earlier securities purchases.
August	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities. The volume of credit in the stock market and stock prices were advancing sharply and were at or near the highest levels since World War II.
August-early September	Made little change in holdings of U. S. Government securities. Member bank borrowings increased to an average of more than \$400 million in early September.	Open market action not taken to offset drains on reserve funds reflecting bank credit and monetary expansion resulting from seasonal factors and the sharp upturn in economic activity.
August-September	Raised discount rates from 1¾ to 2 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with market rates and to increase the cost of borrowing by individual banks from the Reserve Banks in case of increasing demands for bank credit.
October	Raised margin requirements on loans for purchasing or carrying listed securities from 70 to 90 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities.
Late October-early November	Raised discount rates from 2 to 2½ per cent at all Reserve Banks.	To bring discount rates into closer alignment with open market rates.
Mid-November-December	Increased system holdings of U. S. Government securities about \$900 million, including securities held under repurchase agreement. Member bank borrowings rose to average of \$560 million in December.	To meet part of reserve needs associated with seasonal factors and a further moderate outflow of gold.

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