

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.

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 resump-

tion 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 de-

sirable, 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.

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