Digest of Principal Federal Reserve Policy Actions, 1959

Period	Action	Purpose of action
January–February	Reduced holdings of U.S. Government securities in January by about $1 billion. Member bank borrowings at the Federal Reserve Banks continued at an average of $500 million or more.	To offset the seasonal inflow of reserve funds resulting mainly from the post-holiday return flow of currency from circulation and thus maintain restraint on credit expansion.
March–Mid-July	Increased System holdings of U.S. Government securities by about $1.1 billion. Member bank borrowings rose further to an average of $1.0 billion in mid-July.	To offset partially the absorption of reserves due mainly to a decline of $780 million in gold stock and an increase of about $1 billion in currency in circulation and to keep credit expansion under restraint.
March	Raised discount rates from 2½ to 3 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with the rise in market rates resulting from vigorous credit demands and to restrain undue credit expansion.
May–June	Raised discount rates from 3 to 3½ per cent at all Reserve Banks.	
Mid-July–October	Bought and subsequently sold small amounts of U.S. Government securities around periods of Treasury financing and the 3rd quarter tax date. Member bank borrowings averaged about $900 million with temporary increases above $1 billion around Treasury financing and tax payment dates.	To supply special reserve needs for only limited periods in recognition of pressures in money, credit, and capital markets resulting from vigorous public and private demand for credit.
September	Raised discount rates from 3½ to 4 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with the rise in market rates resulting from vigorous credit demands and to restrain undue credit expansion.
November–December	Increased System holdings of U.S. Government securities by about $800 million through mid-December and then reduced holdings somewhat. Authorized member banks to count about $300 million of their vault cash as required reserves through amendment to Regulation D, effective December 1, under new legislation. Average borrowings rose to about $1 billion in the last half of December.	To meet part of the temporary end-of-year needs of banks for reserve funds but at the same time to keep bank reserve positions under pressure.

RECORD OF POLICY ACTIONS

FEDERAL OPEN MARKET COMMITTEE

The record of policy actions of the Federal Open Market Committee is presented in the Annual Report of the Board of Governors pursuant to the requirements of Section 10 of the Federal Reserve Act. That section provides that the Board 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, that it 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, and that it shall include in its Annual Report to the Congress a full account of such actions.

In the pages that follow, there is an entry with respect to the policy approved by the Committee at each of the 18 meetings held during the calendar year 1959, which record includes the votes on the policy decisions as well as a resume of the basis for the decisions, as reflected by the minutes of the Committee's meetings. In some cases policy decisions were by unanimous vote, while in others a dissent was recorded. As this record shows, the fact that a decision for a general policy was by large majority or even by unanimous vote does not necessarily indicate that all members of the Committee were equally agreed as to the reasons for a particular decision or as to the precise operations in the open market that were called for to implement the general policy. These shades of opinion, fully expressed at meetings, serve to provide the Manager of the System Open Market Account (who attends the meetings of the Committee) with guides to be used in the conduct of open market operations within the framework of the policy directive adopted.

Set forth below is the policy directive of the Federal Open Market Committee that was in effect at the beginning of 1959, the directive having been approved in this form at the meeting on December 16, 1958. This directive 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. It 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 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.

January 6, 1959

Authority to effect transactions in System Account.

The Federal Open Market Committee's directive was approved in the same form that had been adopted at the last meeting of the Committee in 1958 (December 16), calling for a policy of fostering conditions in the money market conducive to sustainable economic growth and stability.

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

Presentation and consideration of a detailed review of the regional and national economic and financial situation preceded the Committee's decision to renew the existing policy directive. There was general agreement that the Committee should attempt to maintain about the same degree of restraint on credit expansion during the immediate future that had applied in the recent past. However, there was a considerable body of sentiment that favored resolving doubts in the operation of the System Open Market Account on the side of restricting, rather than easing, the reserve positions of banks.

This policy decision was made against an economic backdrop of maturing recovery with output back or nearly back to prerecession levels, meaning that problems of sustainable growth had now replaced problems of recession. The failure of commodity prices to decline significantly during the recession, the speed and generality of the economic recovery, the persistent rise in common stock prices, the pace of monetary expansion early in 1958, and the size of the current Federal deficit suggested the likelihood of the development of speculative or otherwise unsustainable elements in the further expansion of activity. This posed a key question for Federal Reserve policy as to what rate of monetary expansion would contribute best to the sustainability, without inflation, of prospective economic expansion.

It was noted that the money market had functioned more smoothly in the closing weeks of 1958 than in other year-end periods. Treasury bill rates had reached a peak on December 16 but since then had moved downward. As for bank credit, recent statistics had shown greater expansion than had been apparent a month or two earlier. This was true particularly with respect to a larger than expected growth in loans and investments at country banks, bringing the increase in loans and investments of all commercial banks to around $13 billion for the first eleven months of 1958.

Other factors to which the Committee paid close attention in reaching its decision as to the policy directive included the forthcoming cash and refunding operations of the Treasury, the need for the System to absorb the seasonal return flow of currency into the banking system to prevent the expansion in the reserve base that otherwise would occur, and the continued evidence of speculative fever in the stock market. At the same time, concern was expressed over the persistence of relatively large unemployment.

The conclusion of the Committee that the degree of restraint on credit expansion in the near future should be about the same as in the immediate past, but that any deviation should be on the side of restraint, reflected the foregoing considerations.

January 27, 1959

Authority to effect transactions in System Account.

No change was made at this meeting in the Open Market Committee's directive, thus continuing the policy of conducting operations in the System Open Market Account with a view, among other things, to fostering conditions in the money market conducive to sustainable economic growth and stability.

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.

In reaching its decision as to policy, the Committee gave particular attention to the fact that the monetary basis for continued economic expansion had already largely been established and that forces mostly outside the area of bank credit were likely to determine whether demands for consumption and investment would be of such magnitude and nature as to reduce the volume of unemployment, whether there would be sustainable growth, whether persistent pressures on prices would produce creeping inflation, or whether speculative commitments would create a bubble on a boom that would burst at an early stage.

Analysis of current economic trends led to the conclusion that further recovery to reasonably full utilization of resources and then continued growth at a sustainable rate would depend

upon individual decisions with respect to pricing and buying and investment and saving. It appeared that additional stimulants through fiscal or credit policies were not now needed. In fact, the forces already at work might induce commitments of a speculative nature, or lead to pricing policies that would first contribute to inflation but ultimately discourage buying. Consequently, it was the view of the Committee that the current degree of restraint on bank reserves was appropriate under existing circumstances and should be continued, especially in the light of the forthcoming Treasury refunding which indicated the desirability of no change in the general state of the money market until a reasonable time following completion of this Treasury financing.

The Committee members and the other Reserve Bank presidents in attendance at this meeting also discussed the level of the discount rate at the Reserve Banks, then 2½ per cent. Although they recognized that that rate was fixed by the directors of the Federal Reserve Banks subject to review and determination by the Board of Governors, there was a fairly unanimous opinion that no action to change the rate would be desirable prior to completion of the Treasury's February refunding.

February 10, 1959

Authority to effect transactions in System Account.

The Committee again renewed without change its directive that set forth a policy of fostering conditions in the money market conducive to sustainable economic growth and stability.

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

Careful consideration by the Committee of business and financial developments preceded its decision to renew its existing policy directive. Widespread but small further increases in industrial production were reported, and prices for some strategic industrial materials had risen further. On the whole, business recovery appeared to be continuing at a moderate pace, although unemployment had risen about seasonally during January.

In reaching its decision to make no change in policy and to maintain the same degree of pressure on bank reserve positions that had been exerted recently, the Committee took particular account of the fact that the large and almost continuous schedule of Treasury borrowings, together with potentially large private credit demands, showed every likelihood of bringing the capital markets increasingly under pressure, thus tightening credit conditions even without any aggressive System effort at restraint. The Committee also considered the prospect that the upward trend of interest rates caused by such borrowing might be sharper than would be appropriate for the general state of business activity. Nevertheless, the view was expressed by a few members that any doubts in arranging transactions for the Open Market Account, pursuant to the terms of the directive issued at this meeting, should be resolved on the side of restraint rather than of ease.

There was further discussion at this meeting of the Reserve Bank discount rate level in relation to the open market policy being followed and to prevailing market rates. Several of those present expressed the opinion that action by the Reserve Bank directors to increase the discount rate level soon after the Treasury's large February refunding operation had been completed would be appropriate and consistent with current open market policy.

March 3, 1959

1. Review of continuing authorities or statements of policy.

This being the first meeting of the Federal Open Market Committee following election of new members by the Federal Reserve Banks for the year beginning March 1, 1959, and assumption by them of 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, Allen, Balderston, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, and Bryan. 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, Allen, Balderston, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, and Bryan. Vote against this action: Mr. Hayes, Vice Chairman.

Mr. Hayes stated that he continued to have the same reservations as a year ago about the wording of this statement, which he would vote to approve 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, Allen, Balderston, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, and Bryan. Vote against this action: Mr. Hayes, Vice Chairman.

Mr. Hayes said that he would vote to approve this 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.

No change was made at this meeting in the directive of the Committee, thus continuing the policy of fostering conditions in the money market conducive to sustainable economic growth and stability.

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

The state of economic activity appeared to be one of budding inflationary boom. The economy had now about attained the preceding cyclical high in industrial production, and it was exceeding the high in terms of aggregate output of goods and services. Business demands for fixed capital and for stock were expected to gain strength as expansion continued. The response of industrial prices to increasing demands had been at least as prompt and as strong thus far during 1959 as in the two preceding postwar expansions, with increases fairly widespread and encompassing finished products as well as materials.

Although this was the general picture, unemployment was still sizable at 6 per cent of the labor force. Further, the sharp rise that had taken place in the operating rate in the steel industry was believed to reflect to some extent precautionary buying against a possible strike, rather than a corresponding increase in final demands for steel products.

The financial situation suggested that there was adequate liquidity to finance further expansion and that under the circumstances further growth in the money supply might not be necessary for some time—at least not until there was evidence that unfulfilled monetary needs might be unduly retarding growth.

The foregoing considerations led the Committee to conclude that the policy directive should be continued without change, with the understanding as expressed by a majority of the Committee that about the same level of restraint should be maintained on bank reserves as at present and that any doubts on the part of the Account Management regarding transactions to be effected should be resolved on the side of restraint. However, a minority view was that any greater pressure than presently evidenced was unnecessary and might be unwise, and in fact that the occasional appearance of free reserves (excess reserves in excess of member bank borrowings from the Reserve Banks) could be psychologically desirable.

The members of the Open Market Committee and the other Federal Reserve Bank presidents who were in attendance at this meeting also discussed the level of the discount rate at the Federal Reserve Banks. A majority indicated the belief that the 2½ per cent rate was clearly out of line and that early adoption of a 3 per cent rate would be more appropriate.

March 24, 1959

Authority to effect transactions in System Account.

The Open Market Committee renewed without change its directive to the Federal Reserve Bank of New York, which specified that operations should be with a view, among other things, to fostering conditions in the money market conducive to sustainable economic growth and stability.

Votes for this action: Messrs. Balderston, Chairman pro tem, Allen, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, Bryan, and Treiber. Votes against this action: None.

The Committee's decision to continue the policy directive in its existing form followed a review of national and regional business and credit conditions from which it appeared that economic activity was continuing its upward swing, with further gains noted in a number of the leading indices, including the index of industrial production. Prices of industrial materials had risen somewhat further, while prices of agricultural commodities had declined, and the average of all wholesale prices was fairly stable. The most recent statistics, for February, indicated that both employment and unemployment were little changed.

Since the March 3 meeting of the Committee, financial markets had absorbed with remarkably little disturbance the effects of an increase in Federal Reserve Bank discount rates from 2½ per cent to 3 per cent earlier this month, some tightening of bank reserve positions, the demands of the corporate tax and dividend payment period, and the announcement of a Treasury cash financing operation totalling $4 billion. The explanation of this relative calmness in money markets during a period of special pressures seemed to lie partly in the moderateness of current credit demands, but more largely in the general state of liquidity of the economy.

The consensus favored maintaining about the degree of restraint that had prevailed during the preceding three weeks, with the impending Treasury financing operation one factor that suggested no change in open market policy. During the discussion, one view was expressed that doubts arising in the conduct of open market operations should be resolved on the side of ease and that near-term System policy should be directed toward maintaining only sufficient pressure on reserves to aid the redistribution of the Treasury's new security offerings out of the underwriting commercial banks into permanent hands. However, most members of the Committee concluded that recent policy had been appropriate and should be continued.

April 14, 1959

Authority to effect transactions in System Account.

The policy directive calling for operations in the System Account with a view to fostering conditions in the money market conducive to sustainable economic growth and stability was again renewed.

Votes for this action: Messrs. Hayes, Vice Chairman, Balderston, Deming, Erickson, Mills, Robertson, Shepardson, Szymczak, Bryan, and Fulton. Votes against this action: None. Mr. King did not vote on this action.

A consideration of importance to the Committee in the determination of policy at this juncture was the situation of the Treasury. From the $4 billion cash financing operation that had been completed on April 1, there remained for the banks and dealers the task of distributing a large portion of their acquisitions to the investing public. In the offing were the Treasury's large May refunding and another cash financing operation, while holders of the 4 per cent notes of August 1961 had until the end of this month the option of deciding whether to turn in those notes by August 1, 1959, in lieu of holding them to maturity. In the Government securities market, a slow but steady deterioration of atmosphere had developed since the first of April, with nonbank demand for securities off substantially and buyers for commercial bank offerings of the Treasury's latest issues more difficult to locate.

Reflecting the heavy schedule of Treasury financing ahead and continued improvement in the business situation, there appeared to be a growing belief in the market that interest rates were likely to move higher. As to the business situation, recent data provided a record of general economic advance, with available statistics for March indicating advances in industrial production, housing starts, and personal income, along with continued accumulation of business inventories. A greater than seasonal rise in employment was reported, and creeping advance in average prices of industrial commodities was noted.

The consensus at this meeting in terms of policy for the three-week period ahead called for maintenance of about the same degree of restraint as had existed during the past three weeks. However, the mixture of views contributing to the consensus covered a rather wide spectrum of opinion. There were those who felt that the Treasury problem was a reason for moving cautiously and that a certain degree of caution might in any case be warranted by the lack of definite evidence of inflationary threats at the present time. There were also those who believed that the economy was reaching toward boom proportions and who concluded with only the greatest reluctance that the System should refrain from further restrictive measures because of the Treasury's financing program, while a small minority would have favored some probing in the market toward increased restraint. It was out of this mixture of views that there came agreement that the existing policy directive should be renewed without change and that operations in the immediate future should continue as nearly as practicable the existing degree of pressure against credit expansion.

May 5, 1959

Authority to effect transactions in System Account.

The decision of the Committee at this meeting was to renew without change the policy directive that called for operations with a view to fostering conditions in the money market conducive to sustainable economic growth and stability.

Votes for this action: Messrs. Balderston, Chairman pro tem, Deming, Erickson, King, Mills, Robertson, Shepardson, Szymczak, Bryan, Fulton, and Treiber. Votes against this action: None.

The Treasury being in the midst of a large refunding and cash financing operation, with the new securities to be issued the next week, the consensus at this meeting of the Federal Open Market Committee favored continuing the existing degree of restraint for an appropriate period following the Treasury financing. However, upon review of current business and financial data, it was the majority view that it would be desirable to move toward greater restraint as soon as feasible after the Treasury financing and that revision of the policy directive might be indicated at the next meeting of the Committee.

The economic report was one of strongly expanding demand, rising productive activity, advancing prices at wholesale, and strongly optimistic business and financial expectations. Labor market data pointed to further strengthening of demands for manpower, and altogether the domestic expansion in process was suggestive of developing inflationary boom. Internationally, a pick-up of activity in key industrial countries and improvement in the balance-of-payments positions of material-supplying areas indicated that a general upturn in world output and trade was under way.

Pressures on financial markets had increased during April, apparently reflecting expanding monetary and credit demands incident to the continuing advance of business activity rather than limitations on the supply of credit. Demands on long-term capital markets had been moderate, but bank loans (particularly consumer instalment credit) had increased more than seasonally and banks also had been endeavoring to distribute Government securities taken on in the April 1 financing. Mortgage demands continued large and real estate loans at banks had increased more than at any time since 1955. The stock market had risen to new high levels and stock market credit continued to increase. Interest rates had continued to rise further. Reflecting these factors, member bank borrowings from Federal Reserve Banks had risen in recent weeks to an average of around $700 million.

Although the majority of the Committee agreed that it would be desirable to move towards greater restraint on credit expansion as soon as feasible after the current Treasury financing was completed, a minority point of view cautioned against a monetary policy that might defeat and finally counteract what could prove to be only normal economic growth by touching off a spiral of contractive credit forces. A specific danger cited was that undue restraint on the growth of the money supply could result in harmful consequences to the Government securities market if commercial banks were forced to liquidate unduly large amounts of securities in order to fulfill lending obligations to their customers.

May 26, 1959

Authority to effect transactions in System Account.

Clause (b) of the first paragraph of the Committee's policy directive was revised at this meeting so as to provide for increased restraint on credit expansion. This was indicated by adoption of wording specifying that open market operations should be conducted with a view "to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities." This replaced the clause of the directive that had been in effect since December 16, 1958 calling for operations with a view "to fostering conditions in the money market conducive to sustainable economic growth and stability."

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Deming, Erickson, King, Robertson, Shepardson, Szymczak, and Bryan. Vote against this action: Mr. Mills.

Productive activity was spurting ahead and the economic climate had become distinctly more inflationary, according to reports at this meeting. Industrial production in April, which carried the Board's index up two points in a month for the third consecutive month, reflected principally gains in output of durable goods industries, including both producer and consumer lines. Data available for May suggested another two-point advance in the index for that month. Personal income had been climbing for several months at an annual rate of more than $3 billion a month, principally because of higher wage and salary payments. Reflecting this improvement in personal income, retail sales (seasonally adjusted) in April carried beyond the large March volume and were about 12 per cent higher than the cyclical low point of March 1958. A robust expansion of consumer instalment credit, which had been in process since late 1958, supported rising sales of automobiles and household durables.

Housing starts in April, seasonally adjusted, were at the annual rate of 1.4 million, and the total of starts in the first

four months of 1959 was the highest on record for a comparable period. Total construction contract awards in April had reached the highest level on record, 31 per cent above a year earlier. Marked improvement in the employment situation also had occurred in April, and the unemployment problem appeared to be diminishing in scope to certain pockets of structural unemployment. Industrial prices rose further in April and an additional advance was taking place in May; at mid-May, the level was up 2.5 per cent from a year earlier and stood 2 per cent above the prerecession high reached in 1957. Consumer prices advanced slightly in April, with a further modest rise indicated for May.

In financial markets, the month of May was characterized by unseasonably large credit demands and further increases in interest rates to the highest levels for some years. Nearly all interest rates rose except yields on three-month Treasury bills, which continued in the 2¾ to 3 per cent range that had prevailed generally since late February. Yields on long-term Treasury bonds and on both new and seasoned corporate issues had now risen to the highest levels since the 1920's. On May 15, large city banks announced an increase from 4 to 4½ per cent in their lending rate on prime customers' loans.

Following an exceptionally large increase in bank loans at all commercial banks in April, city banks showed a further loan expansion in the first three weeks of May. The increase had been particularly large in business loans, but real estate and consumer loans also showed marked increases. The ratio of total loans to total loans and investments of banks now stood close to the high level reached in 1957. The aggregate money supply, after adjustment for seasonal variations, showed an advance in recent months at an annual rate of 4 per cent or more, and in addition the turnover of bank deposits had been increasing in recent months.

The large May refunding and cash operations of the Treasury were now completed, and it appeared likely that no additional borrowing would be necessary until early July. Nevertheless, the expansion in credit demands during April and May had brought increased pressure on the reserve positions of banks, as indicated by the rise in borrowings at the Federal Reserve Banks and the accompanying increase in the level of net borrowed reserves.

Upon review and analysis of the over-all situation, including the continuing United States balance-of-payments deficit, the Open Market Committee reached the conclusion that the current level of restraint imposed by monetary and credit policy was not sufficiently restrictive and that an intensification of restraint was required. Reports presented by the Reserve Bank presidents at this meeting indicated the possibility that the directors of the respective Federal Reserve Banks would move soon to fix the discount rate at a level higher than the prevailing 3 per cent—probably 3½ per cent. On the assumption of a rate increase of no larger proportions, the Committee favored conducting open market operations with a view to exerting additional pressure as rapidly as that could be done without creating an untenable condition in the market for Government securities.

Although the firmer tone desired by the Committee was not expressed in terms of a specific target of net borrowed reserves (an excess of member bank borrowings at the Reserve Banks over their excess reserves), it was noted that additional restraint could be brought about in the next few weeks by letting natural factors take their course. On the basis of projections before the Committee as to factors affecting the supply of and need for reserves in the weeks ahead, it appeared that under such a procedure net borrowed reserves, which recently had been running in the neighborhood of $250 million, would move upward toward the $500 million level.

In the current circumstances, the policy directive to the Federal Reserve Bank of New York was deemed to be in need of revision. Accordingly, after consideration of several suggestions, it was decided that clause (b) of the first paragraph of the directive, which since December 1958 had provided for operations with a view "to fostering conditions in the money market conducive to sustainable economic growth and stability," should be changed to provide for operations with a view "to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities."

Mr. Mills, who voted against approval of the revised policy directive, indicated that apprehensions he previously had expressed had not diminished with respect to the delayed and violent financial and economic reactions that he sensed to be in the offing when the cumulative pressures inherent in present monetary and credit policy took their full effect. He cautioned against undue alarm concerning anticipated events that had not yet come into clear perspective.

June 16, 1959

Authority to effect transactions in System Account.

Since the previous Open Market Committee meeting (May 26), the discount rate at each of the Federal Reserve Banks had been increased from 3 per cent to 3½ per cent. While prices of Treasury notes and bonds remained virtually unchanged following this increase, rates on bills of longer maturities moved up slightly and those on 91-day bills advanced fairly sharply.

As envisaged by the consensus at the May 26 Committee meeting, natural market factors had been allowed to have their effect since that time in order to bring about an increase in the degree of restraint. Net borrowed reserves, for example, rose from slightly over $300 million in the week ended May 27 to more than $500 million in the following week and continued around that level.

In addition to seasonal demands that would require additions to reserves during the latter part of June, it was noted that, within the three-week period following this meeting of the Committee, the Treasury was to conduct another cash financing operation in which it was anticipated that around $3.5 to $4.5 billion of new money would have to be raised, presumably again in the short-term area.

In considering the course of System policy, the Committee had before it reports indicating further economic expansion on a broad front to new high levels. Production, sales, income, and employment showed increases, while unemployment in May fell below 5 per cent of the labor force for the first time since the end of 1957. Businesses were adding to their inventories at an unusually high rate and had revised upward their plans for new plant and equipment expenditures. Total bank credit expansion, including that of the Federal Reserve Banks, appeared to have been adequate to meet the persistent gold outflow and provide for further expansion of the money supply. Abroad, general economic expansion seemed clearly in process, with principal foreign countries continuing to show a strong balance-of-payments situation and to accumulate gold and dollar reserves.

On the basis of business and credit conditions and in view of the forthcoming Treasury financing, the consensus favored continuance of the present open market policy of restraint on inflationary credit expansion. While a number of Committee members expressed the hope that the Account Management would be able to avoid any development of less restraint against credit expansion, others urged caution against operations that might result in excessive tightness.

With no change in policy indicated by the consensus at the meeting, the Committee continued without change the directive, adopted at the May 26 meeting, which was stated in terms of restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Hayes, Vice Chairman, Allen, Deming, Erickson, Johns, King, Robertson, Shepardson, and Szymczak. Votes against this action: None.

July 7, 1959

Authority to effect transactions in System Account.

It appeared to the Committee that a number of major expansive influences that had been operating in the economy, including residential construction, inventory accumulation, and gains in industrial productivity, might now have passed their maximum rates of growth and that some slowdown in the rapid pace of advance could be expected during the next few months. A major industrial uncertainty was the possibility of a strike in the steel industry. However, for the period up to the time of this meeting, the data reflected continuation of a vigorous expansion in economic activity. Industrial production apparently had increased further in June, while estimates placed gross national product for the second quarter up $10 billion from the first quarter of the year in terms of both current and constant dollars. Expanding consumer demand was being supported by a rapid growth of consumer instalment credit, which increased in the April-May period at an annual rate in excess of $5 billion.

During June, money markets were under pressure from continued strong credit demands. The restricted availability of bank reserves made it necessary for banks to reduce their holdings of securities by large amounts in order to meet these demands, and a high level of borrowings at the Federal Reserve Banks also kept the banks under restraint. It now appeared that growth in the money supply during the first six months of 1959 had been at an annual rate of about 2 per cent but that only a small increase had taken place in May and none in June.

At the time of this meeting, interest in the Government securities market focused on the new Treasury financing, which involved the offering of a total of $5 billion of bills at auctions on July 1 and July 8 in addition to the regular weekly bill auctions. There had been pronounced increases in interest rates in recent weeks, and in the regular Treasury bill auction on the day preceding this meeting demand for both long- and short- bills was light, resulting in an average rate of 3.26 per cent for the 91-day bills and 3.96 for the 182-day bills. Awards to dealers had totalled $587 million, and the result of that auction indicated another upward adjustment in bill rates.

For the period immediately ahead, it was the consensus that there should be no change in open market policy. However, in view of the difficult Treasury financing situation, the instruction to the Manager of the System Open Market Account was tempered with the proviso that, in carrying on operations for the Account, doubts should be resolved on the side of ease during the period of Treasury financing.

In view of the decision of the Committee to make no change in policy, and with the indicated understanding as to resolving doubts on the side of ease, the directive calling for restraint on inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities was again renewed without change.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Deming, Johns, King, Mills, Shepardson, Szymczak, and Bopp. Votes against this action: None.

July 28, 1959

Authority to effect transactions in System Account.

At this meeting the Open Market Committee continued without change the policy directive providing for restraint on inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Deming, Erickson, Johns, Mills, Robertson, and Shepardson. Votes against this action: None.

Financial developments during July had been dominated by the massive Treasury operations, which included not only the raising of $5 billion of new cash through two bill offerings but the subsequent refunding of $14 billion of issues maturing on the first of August. Difficulties and uncertainties connected with the earlier Treasury operations resulted in a sharp rise in rates to the level of 4¾ per cent for a one-year issue, but this rate attracted funds from widespread sources. The refunding offer at 4¾ per cent on both a 12½ month issue and a 4-year, 9-month issue was successful, with unusually low attrition. As a consequence, the tone of the Government securities market had improved somewhat, and the amount of prospective new Treasury financing in mid-August was reduced.

(On July 16, 1959, the Open Market Committee, by poll of the available members, authorized exchange of as much as one-half of System Open Market Account holdings of $8,143 million of Treasury certificates of indebtedness maturing August 1, 1959, into 4¾ per cent notes maturing May 15, 1964, the remainder to go into 4¾ per cent notes maturing August 15, 1960. Only $2.6 billion of the Account's certificate holdings actually were exchanged into the 1964 notes. The purpose of this authorization was to assist the Treasury in evening out the maturity schedule.)

Almost all recent economic data continued to reflect rapid growth. Expansion in the second quarter of 1959 proved to have been more vigorous than earlier figures had indicated, with gross national product rising at an annual rate of $13 billion above the previous quarter. The increase over the quarter in physical volume amounted to about $10 billion, so that there was $3 billion of inflationary price rise, i.e., an annual rate of a billion dollars a month. Consumer spending advanced by the near-record rate of $7.5 billion during the quarter. Demand for producer durable goods was strong, reflecting both increased consumer spending and rising business investment, and construction activity continued at close to peak levels in June. Although wholesale prices of industrial commodities marked time, the consumer price index showed an abrupt rise of .4 per cent in June. A major uncertainty was introduced into the economic situation by the steel strike that began July 15 after extensive negotiations failed to produce a settlement. Another matter of concern accompanying the expansion in business was the balance-of-payments situation; it now appeared that the total accumulation of gold and dollar assets by foreign accounts in 1959 might be over $4 billion, compared with $3.4 billion in 1958.

The generally strong business picture, the strength of credit demands, the need to keep the Treasury's seasonal deficit financing in the next few months from swelling the money supply unduly, prospective wage and price developments, and the failure of the balance of payments to show improvement appeared clearly to justify continued monetary restraint. On the other hand, the steel strike had injected a major element of uncertainty into the outlook, and the situation in the Government securities market remained delicate in spite of the successful Treasury refunding. Thus, although an opinion was expressed that such inflationary pressures as now existed would be adequately contained by a more moderate degree of restraint, the consensus favored aiming as far as practicable at the same degree of restraint on credit expansion as currently prevailed. Accordingly, the directive was renewed without change.

August 18, 1959

Authority to effect transactions in System Account.

The conclusion reached by the Open Market Committee was to aim toward maintenance of the status quo, that is, continuation of the existing degree of restraint, during the period immediately ahead, with no change at this time in the policy providing for System open market operations with a view to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities. Accordingly, the directive was renewed in the form that had been in effect since May 26.

Votes for this action: Messrs. Martin, Chairman, Allen, Balderston, Deming, Erickson, Johns, King, Mills, Szymczak, and Treiber. Votes against this action: None.

In discussion leading to this conclusion relative to the course of open market policy, the Committee gave consideration to whether the present economic situation and prospective developments justified moving in the direction of additional restraint during the two-week period before its next meeting, scheduled for September 1, 1959, or, on the other hand, whether the tendency should be in the direction of leaning slightly on the side of ease.

The business and financial position was characterized by strong and broadly-based demands despite the month-old steel strike, and general optimism was reported to prevail with respect to the business and employment outlook over the next few months. There continued to be reports of strong demand for bank credit, widely distributed among different types of borrowers. The index of industrial production dropped 2 points in July, but this was accounted for by the steel strike along with adjustments from the abnormal levels of activity in some sectors of the economy that had been attained in the past few months in anticipation of the strike. However, approximately 5 per cent of the labor force (exclusive of those on strike) was unemployed, and some excess production facilities were still available. Although the volume of commercial bank loans had expanded, this expansion was accompanied by substantial divestment of Government securities by the banks. This trend, together with the continued high level of member bank borrowing at the Federal Reserve Banks, suggested to some the possibility that monetary and credit policy may have been more restrictive than appeared from surface indications. The consensus that emerged from consideration of these and other factors favored continuing the present degree of restrictiveness at least until the next Committee meeting.

September 1, 1959

Authority to effect transactions in System Account.

The two-week period since the previous meeting of the Open Market Committee was marked by a further steep increase in Treasury bill rates. The rate on three-month bills, which was at the 3 per cent level in late July and moved up to 3.40 per cent by mid-August, had now increased to a point where the average rate in the auction on the day prior to this meeting was 3.89 per cent. In the same auction the average rate on six-month bills was 4.47 per cent, almost 75 basis points above the average rate in the auction on August 17. This rise in rates reflected continued sales of short-term securities by banks in order to meet an exceptionally strong loan demand, reduced demand for Treasury bills on the part of nonbank buyers as seasonal increases in cash needs approached, and further additions to the supply of bills. The current rate level caused attention in the market to focus on the Reserve Bank discount rate (3½ per cent) and the commercial bank prime rate (4½ per cent); uncertainties with respect to the latter rate were resolved when an increase to 5 per cent was announced on the morning of this meeting.

Aside from the influence of work stoppages attributable directly or indirectly to the steel strike, the economic picture presented at this meeting appeared to be one of widespread strength. Construction activity, although showing moderate decline from the all-time record level of April and May, was at a rate one-third higher than a year earlier. New orders and sales figures for durable goods manufacturers reflected marked strength in most lines, retail sales continued vigorous, and consumers continued to seek and incur instalment and mortgage debt at a near-record pace. After rising in June, United States exports reached a seasonally adjusted rate in July one-fifth above the level earlier in the year. While prices of industrial commodities showed relative stability, the consumer price average rose in four consecutive months through July, with a broad range of price increases.

Discussion at this meeting revealed cross currents of thinking with respect to the appropriate posture of System policy at this juncture. Among other things, it was pointed out that the level and trend of Treasury bill and other short-term market rates, together with the increase in the commercial bank prime rate, raised a substantial question as to the practicability of indefinite continuation of the existing Reserve Bank discount rate.

With respect to the appropriateness of the current degree of credit restraint, some sentiment was expressed to the effect that it would be a mistake to await settlement of the steel strike before moving to a more restrictive position. This point of view suggested that there should be some reluctance on the part of the System in meeting seasonal reserve needs and some increase in the level of net borrowed reserves. A different point of view expressed by one member of the Committee held that recent developments indicated that current System policy was unduly restrictive and that its continuation might not be consistent with the System's objective of fostering longer-run economic growth and stability. This opinion suggested that System policy traditionally had sought to meet seasonal credit needs and that there should be no doubt about doing so at this time.

The majority of the Committee favored maintenance of the existing degree of pressure on reserve positions of banks in the period immediately ahead, but no intensification, which would mean supplying reserves to meet the usual seasonal increase in money and credit needs during the next few weeks. Factors influencing the thinking of the majority included the uncertainties attendant upon the steel strike and the further complications that might be created in the Government securities market by the exertion of additional restraint at this time.

Some consideration also was given to the possibility of a revision of the Committee's directive to the Federal Reserve Bank of New York. However, in view of the consensus that there should be no move at this point toward either more or less restrictiveness on reserves, the Committee made no change in the existing directive, providing for open market operations with a view to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Chairman, Allen, Balderston, Deming, Erickson, King, Mills, Robertson, Shepardson, Szymczak, Bryan, and Treiber. Votes against this action: None.

September 22, 1959

Authority to effect transactions in System Account.

The directive to the Federal Reserve Bank of New York was renewed without change, continuing the Open Market Committee's policy of restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Deming, Erickson, Johns, King, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: None.

The Committee's decision to renew the existing policy directive was made after presentation and consideration of a detailed review of the national and regional economic and financial situation. Although no change was made in the directive that provided for restraint on inflationary credit expansion, the Committee qualified its instruction to the New York Reserve Bank with an understanding that to whatever extent operations in the open market for the System Account might result in deviations from the existing degree of restraint on the reserve positions of banks, such deviations preferably should be on the side of reducing restraint. The large majority of Committee members favored this understanding, but the opposite view was put forward, namely, that any such deviations from the existing degree of pressure be on the side of greater restraint.

This policy decision was made against the background of information showing that, despite the spreading effects of the steel and other strikes, economic activity and credit demands were continuing at a high level. The discount rates of all Federal Reserve Banks had been increased from 3½ per cent to 4 per cent since the September 1 meeting, and rates on the longest outstanding Treasury bills had been bid at above 5 per cent. Some uncertainties were expressed as to the near-term future, depending on the settlement of the steel strike, but with demand for credit continuing strong, bank reserve positions remained under pressure. The banks continued to dispose of Government securities to help in meeting loan demands, and the Government securities market had weakened around mid-September as nonbank holders liquidated securities to meet quarterly tax and dividend payments. Investor demand was low, the market supply of Treasury securities was large, and it was noted that a new short-term Treasury financing expected in October would add further to the supply of securities on the market.

Some concern was expressed about the difficulties that the Treasury might expect in its imminent cash financing operation. The point also was made that the anti-inflationary policy that had been followed for some months was contributing to a tempering of business and investor exuberance in forward expectations and planning. Another factor noted was that the seasonal increase in demand for credit during the fall of the year would tend automatically to increase pressure on banks, even though additional amounts of reserve funds were supplied to the market by the Federal Reserve in accordance with projections of aggregate needs of the banking system.

The conclusion of the Committee that the degree of restraint to be maintained in the market during the next few weeks should be about the same as in the recent past, but that any deviations preferably should be on the side of less restraint, was a reflection of such considerations as the foregoing, even though there was recognition of factors to suggest a rapid recovery in economic activity, perhaps developing boom characteristics, after production of steel was renewed.

October 13, 1959

Authority to effect transactions in System Account.

At its preceding meeting (September 22, 1959), the Open Market Committee made no change in the existing policy directive calling for restraint on inflationary credit expansion, with the instruction to the Federal Reserve Bank of New York qualified by the understanding that, to whatever extent System Open Market Account operations might result in deviations from the existing degree of restraint, such deviations preferably should be on the side of reducing the degree of restraint.

At the time of this meeting (October 13), the business and financial outlook was obscured by the cumulative impact of the steel strike. Important economic developments since late spring suggested a possibility that the danger of inflationary boom might have been overcome, although a positive judgment in this respect awaited settlement of the steel strike and the results flowing from such a settlement. The Committee's analysis of the domestic situation gave little reason for either increasing restraints or providing additional stimulants to the economy, and in these circumstances the consensus favored watchful waiting and marking time in the period immediately ahead.

One member of the Committee, Mr. Mills, in whose opinion a moderating of the policy of credit restraint had long been in order, dissented from the policy indicated by the consensus, although only mildly at this particular juncture. Mr. Mills felt that a gradual shift in policy toward relaxation of restraint was called for and that a cautious approach in shaping the supply of reserves and expanding the availability of credit was required in order to avoid provoking an artificial distortion in the structure of interest rates. While certain other members of the Committee also favored a mild backing away from the present degree of restraint, in those cases the shades of difference involved were not sufficient to cause them to record disagreement with the policy indicated by the consensus. Mr. Mills, although dissenting to the extent indicated from a policy of watchful waiting and marking time, joined in the unanimous vote to continue the existing directive to the Federal Reserve Bank of New York, which provided for restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Chairman, Allen, Balderston, Deming, Erickson, King, Mills, Robertson, Shepardson, Szymczak, and Treiber. Votes against this action: None.

November 4, 1959

Authority to effect transactions in System Account.

The Open Market Committee again renewed without change its directive to the Federal Reserve Bank of New York calling for operations with a view to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Hayes, Vice Chairman, Allen, Balderston, Deming, Erickson, Johns, King, Robertson, Shepardson, and Szymczak. Vote against this action: Mr. Mills.

Renewal of the directive reflected the conclusion of the Committee, after analysis of business and financial developments, that there should be no change in basic policy at this time and that in implementing the policy decision, operations for the Open Market Account should aim at maintaining a feeling of stability in monetary and credit conditions and assuring the availability of funds for seasonal credit needs.

In reaching its decision as to policy, the Committee gave careful consideration to the continuing lull in economic activity and in monetary and credit demands. This lull, which had been evident at the October 13 meeting and which led to the suggestion that current developments pointed less in the direction of inflationary boom than was earlier considered likely, was associated largely with the steel strike and its cumulative impact on various segments of the economy. Despite the strike, demand, particularly at the consumer level, remained strong, and an upward tilt was visible in prices for consumer goods and most basic industrial materials. Nevertheless, following a year of heavy pressures in the over-all demand for funds, some moderation of expansive pressures had appeared in late September and continued to characterize the financial markets. At this stage, however, it was questionable whether this moderating of pressures reflected a change in trend or simply a passing phase.

In voting against continuing the existing directive, Mr. Mills proposed revising clause (b) so that it would provide for "fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion." This suggestion reflected his judgment that uncertainties as to the future were strong enough to argue for a monetary and credit policy that would lessen the degree of restraint on credit expansion. Certain other Committee members expressed themselves as leaning toward a slight easing of restraint, but only to the extent that this might be accomplished within the framework of the existing policy directive. None expressed the view that there should be an intentional increase in the degree of restraint at this time.

November 24, 1959

Authority to effect transactions in System Account.

The policy directive providing for restraint on inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities was again renewed by the Open Market Committee.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Deming, Erickson, Johns, King, Robertson, Shepardson, and Szymczak. Vote against this action: Mr. Mills.

The consensus of this meeting favored maintaining the same degree of restraint. In reaching this conclusion as to the objective that should guide open market operations in the ensuing three-week period, the Committee had in mind that the period of heaviest pre-Christmas drain on reserves was now beginning and that the financial markets would be subject to the usual special pressures of the season. In addition, the $2 billion Treasury cash financing operation for which subscriptions were being received the day of this meeting suggested no change in the degree of restraint.

Activity in the steel industry had been resumed for approximately two weeks, after a four-month interruption, under a Taft-Hartley Act injunction. Steel production had climbed to about 80 per cent of capacity in the week before this meeting, and a 90 per cent rate was estimated for the current week. Nevertheless, the outlook as to the rate of economic advance remained uncertain, particularly since it was not yet known when and how the steel and other major labor disputes might ultimately be settled and what would be the continuing and indirect effects of shortages that had accumulated during the work stoppage.

Evidence of the underlying strength in the business situation that had prevailed despite the strike led to expression of the view by some members of the Committee that settlement of the steel dispute might result in a sharp upsurge marked by unsustainable elements of expansion and strong pressures for price increases. Those expressing this view urged that the trends be watched carefully, although they did not propose that the current degree of credit restraint should be intensified at this point. The view also was presented that the System should be ready to move in the direction of lessening restraint if a pattern of reduced pace of economic expansion should emerge. It was noted, among other things, that stability of the money supply and money velocity had prevailed over recent months and that the seasonal growth of bank credit this fall had been somewhat below normal, reflecting at least in part a slackening in economic activity and monetary needs related to the steel stoppage. At the same time, the public's holdings of liquid assets in the form of short-term Government securities had continued to increase. Under all these circumstances, the consensus was that the current open market position was not unduly restrictive or stimulating and should be continued.

Mr. Mills, who voted against continuing the existing policy directive, renewed the suggestion he had made at the meeting on November 4 that clause (b) be amended to provide for "fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion." This suggestion reflected his view that the availability of credit had been brought to a point where the commercial banking system was restricted in making its normal contribution creditwise to growth and stability.

December 15, 1959

Authority to effect transactions in System Account.

The Open Market Committee continued the policy directive calling for restraint on inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Deming, Erickson, Johns, King, Robertson, Shepardson, and Szymczak. Vote against this action: Mr. Mills.

At the time of this Committee meeting, the last held during calendar year 1959, a substantial recovery of industrial production from the setback due to the steel strike was under way. With full-scale output restored in the steel and to a large extent in the steel-dependent industries, it was anticipated that the Board's index of industrial production, placed at 147 for October and estimated at 148 for November, would advance further in December by five or more index points. Retail sales showed widespread gains in November in lines other than automobiles, and early December figures indicated some additional advance. Employment rose moderately in November, the gain being concentrated mainly in durable goods industries, while wholesale price averages were marked by relative stability and consumer prices continued to veer upward. Buying at the consumer level was supported by a further strong growth of instalment credit. Recent data confirmed that the balance-of-payments position of the United States had not deteriorated further and probably had strengthened somewhat. Abroad, the expansion of economic activity in industrial nations continued to be vigorous.

Domestically, prospects seemed weighted toward resumption of an expansionary movement. Although the trend in housing construction was downward from a very high level and a similar trend prevailed with respect to agricultural commodity prices, most general business indicators appeared likely to reach or exceed previous records in the near future. As yet, however, evidence of a general scramble for inventories was lacking, and latest estimates of plant and equipment expenditures suggested somewhat less of an upward trend than had been expected earlier. With the injunction period under the Taft-Hartley Act due to expire in January and labor-management negotiations apparently making little progress, the ultimate outcome of the wage dispute in the steel industry remained in doubt.

Largely in response to usual seasonal liquidity needs, and perhaps to some increase in credit demands as a result of the resumption of steel operations, interest rates rose in the latter part of November and early December. System open market transactions supplied nearly half a billion dollars of reserves to the market during the three-week period preceding this meeting, and in addition some reserves were released by action to permit member banks with relatively large holdings of vault cash to count part as required reserves, effective at the beginning of December. Treasury bill rates reached new record highs in the first part of December, but on the other hand there were occasions when the money market showed signs of easing. Among the cross currents in the market was an element of uncertainty concerning the trend of interest rates in early 1960. Although a decline in rates usually follows the end-of-year rise, there was some feeling that a resumption of expansion in credit demands following settlement of the steel strike might contribute to rate firmness. Also, substantial Treasury financing operations were in prospect, including the raising of possibly as much as $2½ billion of new money in January, the refunding of a $2 billion issue of special bills maturing January 15, and the refunding of a large February certificate maturity.

Analysis of business and financial developments and prospects resulted in a consensus favoring maintenance of the degree of restraint on credit expansion that had been agreed upon by the Committee at its meeting on November 24, 1959. Noting that the economy was still operating below capacity, that the growth of the quantitative money supply had been quite small during the past year, and that the liquidity of the banking system had diminished, some Committee members concluded that the cumulative effects of monetary policy may have become sufficient for a time and that a cautious approach should be followed in order to prevent undue tightness. Within this group, a few felt that the tendency of System policy might well be toward a slight relaxation of restraint, or at least that doubts arising in the conduct of open market operations should be resolved on the side of ease. However, in view of the prospects for an advancing level of economic activity, with vigorous monetary and credit demands, in the months ahead, other members felt that the greater danger lay in too little rather than too much restraint. The prevailing opinion was that any lessening of restraint at this time would be unwise.

Mr. Mills, who voted against renewal of the existing policy directive, proposed the alternative wording for clause (b) that he had also suggested at the two previous Committee meetings. He believed that Federal Reserve monetary and credit policy should aim at moderate restraint over the expansion of bank credit, as contrasted with what he considered to be a policy of relatively severe restriction.

* * *

The policy directive of the Open Market Committee in effect at the beginning of 1959 was aimed at fostering conditions in the money market conducive to sustainable economic growth and stability. Within the framework of this directive, however, there was room for an increase in pressure on member bank reserve positions during the spring, as recovery in the economy had given way to expansion. On May 26, the directive was revised to provide that transactions should be undertaken with a view to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities. Although this was the only change during the year in the language of the directive, there were occasions, as indicated in the entries for the individual meetings, when the directive was issued with the understanding that in the conduct of open market operations there would be a leaning on the side of restraint or of ease. The directive at the end of 1959 instructed 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 restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities, 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.