

FORTY-SIXTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR
1959

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

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 re-

spect 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 non-bank 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, Shephardson, 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.