

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

plished 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 situa-

tion 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.

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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.