FORTY-FOURTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1957

Digest of Principal Federal Reserve Policy Actions, 1957

Period	Action	Purpose of action
January–June	Reduced holding of U. S. Government securities by about $1.8 billion. Member bank borrowings increased from an average of $400 million in January to $1 billion in June.	To offset the effect on reserves of seasonal factors and the sale of $600 million of gold to the United States Treasury by the International Monetary Fund, and to exert pressure on bank reserve positions by bringing about a higher level of member bank borrowings.
August	Raised discount rates from 3 to 3½ per cent at all Reserve Banks.	To bring discount rates into closer alignment with open market money rates and maintain the restrictive effect of member bank borrowing.
July–Mid-October	Bought and subsequently sold small amounts of U. S. Government securities at various times. Member bank borrowings remained at or near average of $1 billion.	To meet changing reserve needs and at the same time maintain continuing pressure on bank reserve positions.
Mid-October–December	System holdings of U. S. Government securities increased by $1 billion, including substantial amounts of securities held under repurchase agreement. Member bank borrowings declined to an average of less than $750 million.	To increase the availability of bank reserves and thereby cushion adjustments and mitigate recessionary tendencies in the economy.
November–December	Reduced discount rates from 3½ to 3 per cent at all Reserve Banks.	To reduce the cost of borrowing from the Reserve Banks and eliminate any undue restraint on bank borrowing in view of the decline in business activity and evidences of economic recession.

RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE

The policy directive of the Federal Open Market Committee in effect at the beginning of 1957 was the directive that had been approved at the meetings on November 27 and December 10, 1956. This directive, which placed emphasis on restraining inflationary developments and which 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, read as follows:

(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 developments in the interest of sustainable economic growth, while recognizing additional pressures in the money, credit, and capital markets resulting from seasonal factors and international conditions, 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;

(3) To sell direct to the Treasury from the System account for gold certificates such amounts of Treasury securities maturing within one year as may be necessary from time to time for the accommodation of the Treasury; provided that the total amount of such securities so sold shall not exceed in the aggregate $500 million face amount, and such sales shall be made as nearly as may be practicable at the prices currently quoted in the open market.

There had been evidence of slackened momentum in the cyclical advance after some 30 months of sustained rising activity, and the question was how monetary policy should react in this situation after a depreciation in the purchasing power of the wholesale dollar over these months of about 6 per cent and of the consumer dollar of over 3 per cent.

This cyclical rise in activity had gotten its first stimulus from consumer outlays for houses and durables purchased heavily on credit. This had been in direct response to the exceptionally easy credit conditions prevailing in 1954. The size of this stimulus had resulted in a large acceleration in business plant and equipment expenditures but there were other factors bringing about these capital expenditures, such as high wage costs and much technological obsolescence of plant and equipment. The large capital investment had meant a heavy total demand for credit and also that savings would have to increase substantially if monetary expansion were not to get out of control. It also had meant that interest rates would rise to higher levels. In addition, since supplies had to be diverted so largely to producers' goods, thus generating additional income without enlarging short-run supplies of products for current use, the rising investment had meant that commodity and service markets were under heavy demand pressures tending to advance prices. Against this background, the Open Market Committee had directed policy for more than a year before this meeting to resisting inflationary pressures as they intensified.

Although it appeared at this time that the boom had lost much of its buoyancy, it was not possible to tell whether the present sidewise movement would continue for some months, perhaps with a renewed upward movement, or whether the economy would decline. Consumer demand, industrial production, and employment remained at or near record levels, although they were no longer rising appreciably.

The Committee's conclusion that the policy directive should be continued with emphasis on restraint included the understanding that, in adjusting amounts of reserves supplied to the market by the Federal Reserve System, doubts should be resolved on the side of greater rather than less restraint than had existed in recent months.

April 16, 1957

Authority to effect transactions in System account.

The directive of the Committee was renewed without change, continuing the policy of restraint on inflationary developments.

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

Economic activity continued on a high plateau with divers surface irregularity. Wholesale prices appeared to be generally stable with consumer prices continuing to tend up. In the credit field, private loan demands were somewhat more moderate than they had been a year earlier, but they were still large and in addition the Government was becoming a new source of borrowing demand on banks. Additional reserves sought by member banks recently had been supplied largely through an increase in member bank borrowing, and the money market had become tighter than at the time of the preceding meeting.

The Committee considered that the increased degree of pressure that had resulted since the preceding meeting had been appropriate. In deciding to renew its policy directive without change, it felt that a stable situation should be maintained for the next few weeks.

May 7, 1957

Authority to effect transactions in System account.

Again the Committee's directive was renewed without change, providing for restraint on inflationary developments.

Votes for this action: Messrs. Martin, Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Vardaman, Williams, and Treiber. Votes against this action: None.

The economy continued to move sidewise but with a slight upward tilt for both gross national product and prices. Credit markets had continued under pressure of large borrowing demands. New securities issues by corporations, though at a slower rate than in the first quarter of the year, had continued relatively heavy. Pressure of credit demand had resulted in a sharp run-up in bond yields although rates on Treasury bills had declined, reflecting an easing of