

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

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 $4\frac{3}{4}$ per cent for a one-year issue, but this rate attracted funds from widespread sources. The refunding offer at $4\frac{3}{4}$ per cent on both a $12\frac{1}{2}$ 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 $4\frac{3}{4}$ per cent notes maturing May 15, 1964, the remainder to go into $4\frac{3}{4}$ 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 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,