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.

been put into the market to help meet added seasonal pressures within the limits of the policy of restraint.

2. Resolution concerning International Monetary Fund transactions.

The Committee approved the following resolution: "Resolved, that the Federal Open Market Committee express no views with respect to the form in which the International Monetary Fund chooses to draw upon its dollar resources."

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, and Szymczak. Votes against this action: None.

This resolution was a response to an inquiry by the United States Executive Director of the International Monetary Fund who had inquired whether the Federal Reserve System would see objection to use by the Fund of some of its gold holdings in meeting prospective drawings against the Fund. In concluding that it would express no views as to the form in which the Fund might choose to draw upon its dollar resources, the Committee sought to preserve the utmost freedom to the Fund in meeting its problems. It was not felt that the Federal Reserve System should tell the Fund or any other agency how it should carry out its responsibilities. The Committee wanted, however, to be kept informed by the Fund in advance of its operations in the American market and appreciated having had an opportunity to know of and consider the current proposal. In keeping with this approach, the Committee felt that the System should follow monetary policy that fitted the circumstances whenever external factors occurred. Thus, in approving the resolution it was understood that the Committee's operations would be used to offset the influence of the operations of the Fund in accordance with whatever the Committee's policy might be.

January 28, 1957

1. Authority to effect transactions in System account.

The Committee made no change at this meeting in the wording of its directive to the Federal Reserve Bank of New York, thus continuing in effect the policy decision that operations for the System open market account should be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation."

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: None.

At the time of this meeting the economic situation domestically remained one of intensive utilization of manpower and other resources and of demand pressure on price levels. Abroad, output and employment generally continued at high levels with price trends most typically on the upside. Domestic industrial production for January was turning out to be at about the same level as in December.

There were at the same time developments that suggested that the economy might be losing some of its upward momentum. While these data were not sufficient to support a forecast of a downward turn as a clear, nearby prospect, they suggested that the economy might be entering a period of sidewise movement. For example, a tendency for total capital expeditures to level off was evidenced by recent figures for factory construction contracts, new machine tool orders, and freight car orders, together with scattered announcements of postponements of plant construction projects. There were cross currents in the area of prices with higher costs showing up in increased prices for finished goods, both at wholesale and at retail, in contrast with a softening trend in prices of a number of primary products. Business loans at all reporting member banks after a fourth quarter rise of $1.6 billion declined by more than $700 million in the three weeks to mid-January, a postwar record decline for the period that compared with a drop of $355 million a year earlier. A rapid decline in security loans had also occurred and about three-fourths of the total rise in loans during the fourth quarter of 1956 had been wiped out. December's sharp rise in interest rates had been followed by an equally sharp decline, the tight tone of the money market by a feeling of ease. The contraction in bank loans that had occurred since the latter part of December had taken place notwithstanding a continued state of relatively less restraint on bank reserve positions, reflected in a decrease in member bank borrowing to the lowest level since early 1955. This liquidation of bank loans since the Christmas season indicated that most of the unprecedented credit demands in December had been to cover temporary needs for cash.

These mixed developments suggested on balance that, while the situation still seemed to be one of pressures on the expansionary side requiring continued restraint on credit growth, care was needed to avoid becoming too restrictive. In reviewing operations during recent weeks, the Committee recognized that the furnishing of reserves in the latter part of 1956 to meet seasonal and other requirements had actually resulted in some reduction in the degree of restraint on credit expansion that had existed in mid-November. It also recognized that the current relative ease was unintended, since it reflected a larger than expected decline in loans and return flow of currency, as well as the relative immobility imposed on the System by the Treasury financing operation. It was believed that operations now should be designed toward restoring approximately the degree of restraint of the late November-early December period, but it was not believed that an increase in that level of restraint was called for at this particular time.

2. Increase in authority to effect transactions in System account.

The Committee ratified the action taken by the individual members of the Committee as of the close of business January 22, 1957 in increasing by $300 million the authorization to the Federal Reserve Bank of New York to make sales of securities from the System open market account under paragraph (1) of the directive approved January 8, 1957.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: None.

The directive approved at the meeting on January 8, 1957, provided a limitation of $1 billion on the aggregate amount of securities that might be purchased or sold for the System open market account in carrying out the policy approved at that meeting. By January 22, the larger than expected contraction in bank loans, along with various other factors adding to the availability of reserves, made it desirable that the System account have greater leeway to makes sales of securities than had been authorized at the January 8 meeting in order to absorb more of the reserves coming into the market and thus to maintain the policy of restraint on inflationary developments. This January 22 increase of $300 million in the limitation was no longer believed necessary at the time of the meeting on January 28 and, in issuing the directive at that time, the Committee fixed the limitation at $1 billion, the same as that approved on January 8.

February 18, 1957

Authority to effect transactions in System account.

No change was made in the policy directive issued by the Committee, which again directed that open market operations be with a view to restraining inflationary developments in the interest of sustainable economic growth, while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: None.

There was no clear evidence of serious weakness in the economy, although business and financial observers had been reappraising, with some doubts, their year-end expectations that 1957 would bring further advances in business activity and further creeping inflation. Industrial production had hesitated in January and slipped back one index point, but it remained close to record levels. While the general level of wholesale commodity prices had continued to rise from mid-December to mid-January and probably further to mid-February, advances in industrial commodities had slackened since late autumn. For some months industrial construction had been below a year ago and, since the spring of 1956, residential contract awards in millions of square feet had been falling. Nonresidential construction awards for business purposes also had been declining, and avail-