

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.

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 make 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-

able evidence suggested that plant and equipment expenditures by manufacturing industries were in the process of leveling off. Unfilled orders in durable goods industries had changed little since August, in contrast to the earlier situation of a mounting order backlog. Business inventories had risen through 1956 at about the same rate as in 1955. This increase in inventories had been greater than the rise in sales, so that inventory-sales ratios in manufacturing were currently higher than a year earlier. The labor market was still strong. Government spending for goods and services had been rising steadily, and further steady rise seemed to be in prospect. Consumer incomes had risen further and spending at retail in January had been at about the record level relative to the season of December. Business optimism was running higher than in the third quarter of 1956—a feeling that appeared to be shared by most manufacturing and retail groups. Demand for long-term business funds continued very strong.

From the survey of economic data available, there was evidence of some slackening in the momentum of inflationary tendencies, but as yet there was no clear-cut evidence of a combination of forces that would halt the advance in the foreseeable future. The financial problem of the economy continued to be that of aggregate demand pressing against aggregate supply. Credit developments in recent weeks had continued to indicate a relaxation of pressures, with rapid bank loan liquidation, less strain on bank reserve positions, a sharp decline in money rates, and an improved tone in the bond market which had permitted sale of a large volume of new issues of securities at declining yields. This easing of inflationary pressures was the goal toward which monetary forces had been directed. It was too early to tell, however, whether this was but a temporary lull, the beginning of a downturn, or the attainment of high-level stability. While it seemed clear that it would be unnecessary and inappropriate to have more stringent restraint at this time, there appeared to be confidence in the vitality of the economy, and this suggested that credit policy should not help to promote a new bulge in activity. The Committee's conclusion was that this was a time calling for continuation of the status quo, and on that basis no change in the policy directive was deemed necessary or desirable.

March 5, 1957

### 1. Review of continuing authorities or statements of policy.

At this, the first meeting of the Federal open Market Committee after the new members elected by the Federal Reserve Banks for the year beginning March 1, 1957 had assumed their duties, the Committee reviewed and reaffirmed all continuing statements of operating policy and specific authorities for operations which were in effect immediately prior to this meeting. Among the continuing statements of policy that were renewed were the following:

a. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

b. Operations for the System account in the open market, other than repurchase agreements, shall be confined to short-term securities (except in the correction of disorderly markets), and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange; these policies to be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

c. Transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

The action renewing these three statements was taken by unanimous vote, pending further study of these and related matters.

Votes for these actions: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Bryan, Leedy, Mills, Robertson, Shepardson, Szymczak, Vardaman, and Williams. Votes against these actions: None.

### 2. Authority to effect transactions in System account.

The policy directive of the Federal Open Market Committee was changed at this meeting for the first time since the meeting on Janu-