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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.

the first half of 1957 had been similar to that of the first half of 1956. In the earlier year, easing tendencies through July had been followed by strong expansion later in the year. A like course of events was widely anticipated in business and financial circles at the time of this meeting. One of the strong factors at this time was in construction where outlays for residential building had increased in June—the first rise in seven months—following a sharp rise in total construction contracts in May. A disturbing element, however, was the renewed rise in construction costs after six months of relative stability. There also had been a rise in new orders of durable goods manufacturers in May, the first since November of 1956. Average hours worked in manufacturing had increased slightly in June, following several months of decline. Economic activity abroad remained buoyant and a number of countries recently had adopted additional measures to restrain the strong inflationary pressures. It seemed clear that the economy was in a period of prosperity as well as inflation.

Considerable feeling was expressed at this meeting of the Open Market Committee that an increase in the degree of pressure was called for, particularly since the Federal Reserve System would have to supply reserves during the remainder of 1957 to take care of seasonal borrowings and Treasury needs. One of the possibilities discussed was that of putting additional reserves into the market through the System account and at the same time increasing the discount rates of the Federal Reserve Banks as a signal that the System felt that credit policy should be tighter than it had been. It was concluded, however, that under present conditions it would not be wise simultaneously to increase the flow of reserves and to raise discount rates. The Treasury was about to make an offering of securities for which payment would be made when seasonal demand for reserves was increasing. The Committee's decision, therefore, was to renew the directive without change and to maintain but not to increase the existing degree of restraint for the immediate future.

July 30, 1957

Authority to effect transactions in System account.

This meeting of the Committee also resulted in a decision to continue without change the policy directive providing for restraint on inflationary developments.

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

Data presented at this meeting showed little change in the picture of the economy that had been developed in recent meetings of the Committee. Such new data as had become available, while indicative of divergent trends in various areas, did not alter the over-all impression of the sidewise movement, and they provided no clue as to the direction and intensity of the next major change in economic activity. Prices were up at both wholesale and retail, however, apparently to new highs. During July there had been some moderation of the degree of tightness in money and securities markets. A large Treasury refunding operation was completed and a substantial reduction in bank loans and investments occurred following a sharp increase in June.

The Committee took cognizance at this meeting of a further rise in interest rates, including a sharp rise in bond yields. Although recent credit expansion had been moderate, the world-wide atmosphere of ebullience and the tendency to accept inflation as inevitable seemed to call for continued restraint through monetary and fiscal measures. Four of the European central banks had increased discount rates during the month, and the reports indicated that inflationary pressures existed in Asia, South America, and other parts of the world as well. Commodity prices had shown a disturbing degree of imperviousness to monetary restraint for more than a year.

The Committee's decision that there should be no change in its policy directive at this time but that efforts should be made to regain the degree of pressure that existed before the Treasury refunding operation in July reflected the view that it was appropriate to keep the banking system under substantial pressure. However, it was observed during the Committee discussion that the discount rates of the Federal Reserve Banks at 3 per cent were already lagging behind the rate structure generally and that if other rates continued to rise the directors of some of the Reserve Banks could be expected to give consideration to raising their discount rates.