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.

August 20, 1957

Authority to effect transactions in System account.

No change was made at this meeting in the Committee's directive that policy should be with a view to restraining inflationary developments.

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

In the period between the Open Market meeting on July 30 and that on August 20, the directors of nine Federal Reserve Banks acted to increase the discount rates of those banks from 3 per cent to 3½ per cent. These actions followed an increase from 4 per cent to 4½ per cent early in August in the rate charged by commercial banks on loans to prime borrowers, as well as further increases in other market rates. The increase of one-half percentage point in discount rates generally was regarded as primarily a technical move made at a time when market interest rates were considerably above discount rates. It was recognized that business activity was continuing to move sidewise and that the business outlook seemed to be a little less buoyant than a few weeks earlier. Money markets had tightened somewhat in August. Although a heavy repayment of business loans occurred in July and early August following record tax borrowings in June, demand for credit and capital continued strong.

No change in the directive of the Committee calling for restraint on credit expansion was made at this meeting, but in renewing the directive the Committee did so with the understanding that the System account would have latitude for flexibility in providing reserves during the next few weeks.

September 10, 1957

Authority to effect transactions in System account.

The Federal Open Market Committee's policy directive was again renewed at this meeting without change in the wording calling for restraint on inflationary developments.

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

When the Committee met on September 10, it again found no material change in over-all business activity since the preceding meeting or, for that matter, for the past several months. Data were presented showing that bank credit had expanded somewhat less rapidly in the past five weeks than in the corresponding period of other recent years. It was also pointed out that banks continued to feel heavy pressure for loans and that the substantial reduction in bank liquidity since a year earlier had intensified that pressure. Monetary expansion had been virtually absent since spring, some slackening in the rise in money turnover had appeared, and normal seasonal pressures could be expected to reinforce the Committee's policy of restraint. Also, it was reported that banks currently were cautious and that since the increase of one-half percentage point in the Reserve Bank discount rates in August, there was recognition throughout the country of the Federal Reserve's policy of firm restraint. Thus, although the Committee made no change in the policy directive, it was renewed with the understanding that in carrying out the broad policy of restraint in the immediate future doubts would be resolved on the side of less rather than greater restraint.

October 1, 1957

Authority to effect transactions in System account.

The directive of the Federal Open Market Committee was renewed without change at this meeting and the policy of restraint on inflationary pressures was thus continued.

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

At the time of the October 1 Open Market Committee meeting, an increasing number of business observers were suggesting that the major expansive forces had been spent, that pressure of inflationary forces was in process of lessening and even of dispersing, and that the prospective movement in activity was a decline. Business senti-