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.

December 17, 1957

Authority to effect transactions in System account.

The policy directive of the Federal Open Market Committee was changed at this meeting to provide that transactions for the System open market account were to be with a view, among other things, "to cushioning adjustments and mitigating recessionary tendencies in the economy." This wording replaced that adopted at the meeting on November 12 and reaffirmed at the meeting on December 3 calling for transactions that would foster sustainable growth in the economy without inflation, by moderating the pressures on bank reserves.

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

General economic recession appeared to be the most appropriate description for the drift in over-all activity that had characterized developments for some weeks prior to this meeting. The industrial production index for October had been placed at 141 and a preliminary estimate of the index for November was 139, or 5 index points below the September level of 144. The decline, which had been greater than was indicated previously, had been widespread despite the strong factor of new automobile assemblies during November. December production schedules for the automobile industry had been reduced because of a resistant sales market in November, steel output had slipped further, and it appeared that average hours worked might decline further in December. The latest data on business plant and equipment expenditures also justified the characterization of general recession in that these figures pointed to a faster and a greater downward adjustment than had been indicated earlier. Another item was the liquidation of business inventories at a rate of $4.5 billion annually during the month of October—a movement which appeared to have continued during November, with the contraction concentrated in durable goods lines. The labor market also pointed to general recession, with unemployment at the highest rate, on a seasonally adjusted basis, since late 1954. Accompanying these changes, personal income was down during November and this had been reflected in slower retail trade in recent weeks.

The average of wholesale prices had shown little change during the past two months.

In the financial area, a significant development in November had been a decline in the seasonally adjusted annual rate of turnover of demand deposits at banks outside New York City, along with a less than seasonal increase in the volume of demand deposits. With turnover about the same as a year earlier, it could no longer be said that increased turnover had offset the effect of a decrease in the supply of money. Federal Reserve operations in late November and early December had supplied a substantial volume of reserves to meet seasonal needs, but even so considerable tightness in the money market had developed in mid-December, partly reflecting the usual seasonal increase in currency needs along with a sharp expansion in credit demands to meet heavy liquidity requirements of the public usual at that time of the year. In addition, the Treasury was raising new money in the market at that time.

The economic and financial data presented at this meeting confirmed rather clearly the developing recession that had been indicated by reports at earlier meetings at which the Committee acted to moderate the pressures on bank reserves. The recession was still of moderate intensity, and inasmuch as the Committee actions taken since mid-November to lessen pressures on reserves, together with the reduction in Reserve Bank discount rates, had signaled an effective change in policy toward less severe credit restraint, it did not appear to the Committee that additional major actions were necessary at the moment. The change at this meeting in wording of the Committee's policy directive was adopted with the understanding that reserves would continue to be made somewhat more available, but the particular reason for this change was to recognize that the economy had encountered a recession and that the Federal Open Market Committee's policies were being molded accordingly.

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Four changes in the wording of the directive of the Open Market Committee were made during 1957, the changes being those reported in this record for the meetings held on January 8, March 5, November 12, and December 17. The January 8 and March 5 changes continued policy within the framework of that in effect at the beginning of the year which placed emphasis on restraint of inflationary developments. The change made on November 12 represented a significant shift in policy away from the emphasis on restraint of inflationary developments, to a program for fostering sustainable growth in the economy without inflation, by moderating the pressures on bank reserves. This shift in policy was further emphasized at the meeting on December 17 with the inclusion in the directive of words that gave frank recognition to recessionary tendencies that were present and to the need for mitigating such tendencies and for cushioning adjustments in the economy. The directive in effect at the conclusion of 1957 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 cushioning adjustments and mitigating recessionary tendencies in the economy, 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.