FORTY-FIFTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1958

Digest of Principal Federal Reserve Policy Actions, 1958

Period	Action	Purpose of action
January	Limited net reduction in holdings of U. S. Government securities to $900 million, more than half of which represented securities held under repurchase agreement at end of year. Member bank borrowings declined to an average of $450 million.	To ease reserve positions by absorbing only part of the reserves made available by seasonal factors affecting bank reserve positions.
January	Reduced margin requirements on loans for purchasing or carrying listed securities from 70 to 50 per cent of market value of securities.	To recognize that dangers of excessive use of credit for stock market speculation had subsided, since stock prices and the volume of credit in the stock market had declined to levels near or below those prevailing at the time of the previous increase in requirements.
January–February	Reduced discount rates from 3 to 2¾ per cent at 11 Reserve Banks.	To reduce further the cost of borrowing from the Reserve Banks and increase further the availability of bank reserves in order to encourage bank credit and monetary expansion conducive to resumed growth in economic activity.
February	Reduced reserve requirements on demand deposits from 20 to 19½ per cent at central reserve city banks; from 18 to 17½ per cent at reserve city banks; and from 12 to 11½ per cent at country banks, thus freeing an estimated $500 million of reserves.	
March	Reduced discount rates from 2¾ to 2¼ per cent at 11 Reserve Banks and from 3 to 2¼ per cent at one Reserve Bank.	
March	Reduced reserve requirements on demand deposits from 19½ to 19 per cent at central reserve city banks; from 17½ to 17 per cent at reserve city banks; and from 11½ to 11 per cent at country banks, thus freeing an additional $500 million of reserves.	
February–Mid-April	Purchased about $450 million of U. S. Government securities. Member bank borrowings declined further to an average of about $180 million.	To supplement reserve requirement actions in further increasing the availability of bank reserves.
April	Reduced reserve requirements on demand deposits from 19 to 18 per cent (in two stages) at central reserve city banks and from 17 to 16½ per cent at reserve city banks, thus freeing a total of about $450 million of reserves.	To supplement previous actions to encourage bank credit and monetary expansion and resumed growth in economic activity and to offset current gold outflow.
April–May	Reduced discount rates from 2¼ to 1¾ per cent at all Reserve Banks.	
Mid-April–June	Purchased outright about $1.7 billion net of U. S. Government securities. Member bank borrowings declined further to an average of $100 million at the end of June.	

Period	Action	Purpose of action
July–early August	Bought a small volume of U. S. Government securities other than short-term issues and a large amount of securities involved in a Treasury refinancing. Promptly thereafter reduced Treasury bill holdings substantially.	To correct disorderly conditions in the Government securities market, to facilitate the Treasury refinancing, and then to recapture the bank reserves created by the earlier securities purchases.
August	Raised margin requirements on loans for purchasing or carrying listed securities from 50 to 70 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities. The volume of credit in the stock market and stock prices were advancing sharply and were at or near the highest levels since World War II.
August–early September	Made little change in holdings of U. S. Government securities. Member bank borrowings increased to an average of more than $400 million in early September.	Open market action not taken to offset drains on reserve funds reflecting bank credit and monetary expansion resulting from seasonal factors and the sharp upturn in economic activity.
August–September	Raised discount rates from 1¾ to 2 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with market rates and to increase the cost of borrowing by individual banks from the Reserve Banks in case of increasing demands for bank credit.
October	Raised margin requirements on loans for purchasing or carrying listed securities from 70 to 90 per cent of market value of securities.	To help prevent an excessive use of credit for purchasing or carrying securities.
Late October–early November	Raised discount rates from 2 to 2½ per cent at all Reserve Banks.	To bring discount rates into closer alignment with open market rates.
Mid-November–December	Increased system holdings of U. S. Government securities about $900 million, including securities held under repurchase agreement. Member bank borrowings rose to average of $560 million in December.	To meet part of reserve needs associated with seasonal factors and a further moderate outflow of gold.

specific authorization given on July 18 and within the general framework of the Committee's continuing operating policies that had been in effect since 1953, and which were last reaffirmed on March 4, 1958. Payment for the securities involved in the Treasury financing would result in a substantial rise in the volume of member bank reserves on August 1, over and above the level that had been maintained during the past seven or eight months, and the Committee gave consideration to what would be the effect of such a substantial increase in the availability of reserves. In light of the evidence of improvement in the economic situation, which suggested that the directive that had been in effect since March 4 was no longer appropriate, and in view of the decision of July 24 that the need for action to correct a disorderly condition in the Government securities market had passed, the conclusion was reached that for the next three weeks the problem for the Committee would be one of absorbing the redundant reserves that would be entering the market, in so far as that could be done consistently with an orderly market in Government securities. Thus, the Committee modified its directive in the manner indicated to require that operations be conducted with a view to recapturing redundant reserves that were expected to be released to the market on August 1.

August 4, 1959

Authority to effect transactions in System Account.

The Committee agreed that for the present, having recaptured redundant reserves, the policy to be followed with respect to operations for the System Open Market Account should be one of keeping from having redundant reserves.

> Votes for this action: Messrs. Martin, Chairman, Balderston, Irons, Leach, Mangels, Mills, Shepardson, Vardaman, Allen, and Treiber. Votes against this action: none.

The recapture of redundant reserves having been effected, pursuant to the policy directive issued at the meeting on July 29, 1958, this action (taken in a meeting held by telephone conference) was for the purpose of giving the Federal Reserve Bank of New York and the Manager of the System Open Market Account an indication as

to general policy to be followed until the next meeting of the Committee.

August 19, 1958

Authority to effect transactions in System Account.

The policy directive of the Federal Open Market Committee was changed at this meeting by adopting wording for clause (b) of paragraph (1) to provide that, among other things, transactions be with a view "to fostering conditions in the money market conducive to balanced economic recovery." This wording superseded that adopted at the meeting on July 29, which called for operations with a view "to recapturing redundant reserves" and which was supplemented by the action taken on August 4 designed to keep from having redundant reserves return.

> Votes for this action: Messrs. Martin, Chairman, Balderston, Fulton, Irons, Leach, Mangels, Shepardson, Vardaman, and Treiber. Votes against this action: none.

Information presented at this meeting showed that vigorous revival in domestic economic activity was taking place. Similarly, in Canada revival appeared to be under way. In Europe, production trends had been mixed, with contractions, where occurring, apparently associated with inventory adjustment.

In the United States the Board's index of industrial production through July had risen at least seven points or 6 per cent, from April, and it seemed possible that late data might raise the amount of advance. Regional reports bore out the national trend, although some important areas of the country were still not experiencing much recovery and the total number of unemployed persons nationally remained disturbingly large.

Domestic financial developments since late July included further expansion in bank credit, which had risen by $7 billion in the first seven months of the year. Financial markets had been influenced by the stream of economic data and corporation reports indicating that vigorous recovery was under way; by indications and rumors that Federal Reserve policy might be shifting away from ease (the Board of Governors of the Federal Reserve System had increased margin requirements for purchasing and carrying listed securities from 50