FORTY-SIXTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1959

DIGEST OF PRINCIPAL FEDERAL RESERVE POLICY ACTIONS, 1959

Period	Action	Purpose of action
January–February	Reduced holdings of U.S. Government securities in January by about $1 billion. Member bank borrowings at the Federal Reserve Banks continued at an average of $500 million or more.	To offset the seasonal inflow of reserve funds resulting mainly from the post-holiday return flow of currency from circulation and thus maintain restraint on credit expansion.
March–Mid-July	Increased System holdings of U.S. Government securities by about $1.1 billion. Member bank borrowings rose further to an average of $1.0 billion in mid-July.	To offset partially the absorption of reserves due mainly to a decline of $780 million in gold stock and an increase of about $1 billion in currency in circulation and to keep credit expansion under restraint.
March	Raised discount rates from 2½ to 3 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with the rise in market rates resulting from vigorous credit demands and to restrain undue credit expansion.
May–June	Raised discount rates from 3 to 3½ per cent at all Reserve Banks.	
Mid-July–October	Bought and subsequently sold small amounts of U.S. Government securities around periods of Treasury financing and the 3rd quarter tax date. Member bank borrowings averaged about $900 million with temporary increases above $1 billion around Treasury financing and tax payment dates.	To supply special reserve needs for only limited periods in recognition of pressures in money, credit, and capital markets resulting from vigorous public and private demand for credit.
September	Raised discount rates from 3½ to 4 per cent at all Reserve Banks.	To keep discount rates in an appropriate relationship with the rise in market rates resulting from vigorous credit demands and to restrain undue credit expansion.
November–December	Increased System holdings of U.S. Government securities by about $800 million through mid-December and then reduced holdings somewhat. Authorized member banks to count about $300 million of their vault cash as required reserves through amendment to Regulation D, effective December 1, under new legislation. Average borrowings rose to about $1 billion in the last half of December.	To meet part of the temporary end-of-year needs of banks for reserve funds but at the same time to keep bank reserve positions under pressure.

RECORD OF POLICY ACTIONS

FEDERAL OPEN MARKET COMMITTEE

The record of policy actions of the Federal Open Market Committee is presented in the Annual Report of the Board of Governors pursuant to the requirements of Section 10 of the Federal Reserve Act. That section provides that the Board shall keep a complete record of the actions taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open market operations, that it shall record therein the votes taken in connection with the determination of open market policies and the reasons underlying the actions of the Board and the Committee in each instance, and that it shall include in its Annual Report to the Congress a full account of such actions.

In the pages that follow, there is an entry with respect to the policy approved by the Committee at each of the 18 meetings held during the calendar year 1959, which record includes the votes on the policy decisions as well as a resume of the basis for the decisions, as reflected by the minutes of the Committee's meetings. In some cases policy decisions were by unanimous vote, while in others a dissent was recorded. As this record shows, the fact that a decision for a general policy was by large majority or even by unanimous vote does not necessarily indicate that all members of the Committee were equally agreed as to the reasons for a particular decision or as to the precise operations in the open market that were called for to implement the general policy. These shades of opinion, fully expressed at meetings, serve to provide the Manager of the System Open Market Account (who attends the meetings of the Committee) with guides to be used in the conduct of open market operations within the framework of the policy directive adopted.

Set forth below is the policy directive of the Federal Open Market Committee that was in effect at the beginning of 1959, the directive having been approved in this form at the meeting on December 16, 1958. This directive was issued to the Federal Reserve Bank of New York as the Bank selected by the dence of inflationary threats at the present time. There were also those who believed that the economy was reaching toward boom proportions and who concluded with only the greatest reluctance that the System should refrain from further restrictive measures because of the Treasury's financing program, while a small minority would have favored some probing in the market toward increased restraint. It was out of this mixture of views that there came agreement that the existing policy directive should be renewed without change and that operations in the immediate future should continue as nearly as practicable the existing degree of pressure against credit expansion.

May 5, 1959

Authority to effect transactions in System Account.

The decision of the Committee at this meeting was to renew without change the policy directive that called for operations with a view to fostering conditions in the money market conducive to sustainable economic growth and stability.

> Votes for this action: Messrs. Balderston, Chairman pro tem, Deming, Erickson, King, Mills, Robertson, Shepardson, Szymczak, Bryan, Fulton, and Treiber. Votes against this action: None.

The Treasury being in the midst of a large refunding and cash financing operation, with the new securities to be issued the next week, the consensus at this meeting of the Federal Open Market Committee favored continuing the existing degree of restraint for an appropriate period following the Treasury financing. However, upon review of current business and financial data, it was the majority view that it would be desirable to move toward greater restraint as soon as feasible after the Treasury financing and that revision of the policy directive might be indicated at the next meeting of the Committee.

The economic report was one of strongly expanding de-

mand, rising productive activity, advancing prices at wholesale, and strongly optimistic business and financial expectations. Labor market data pointed to further strengthening of demands for manpower, and altogether the domestic expansion in process was suggestive of developing inflationary boom. Internationally, a pick-up of activity in key industrial countries and improvement in the balance-of-payments positions of material-supplying areas indicated that a general upturn in world output and trade was under way.

Pressures on financial markets had increased during April, apparently reflecting expanding monetary and credit demands incident to the continuing advance of business activity rather than limitations on the supply of credit. Demands on long-term capital markets had been moderate, but bank loans (particularly consumer instalment credit) had increased more than seasonally and banks also had been endeavoring to distribute Government securities taken on in the April 1 financing. Mortgage demands continued large and real estate loans at banks had increased more than at any time since 1955. The stock market had risen to new high levels and stock market credit continued to increase. Interest rates had continued to rise further. Reflecting these factors, member bank borrowings from Federal Reserve Banks had risen in recent weeks to an average of around $700 million.

Although the majority of the Committee agreed that it would be desirable to move towards greater restraint on credit expansion as soon as feasible after the current Treasury financing was completed, a minority point of view cautioned against a monetary policy that might defeat and finally counteract what could prove to be only normal economic growth by touching off a spiral of contractive credit forces. A specific danger cited was that undue restraint on the growth of the money supply could result in harmful consequences to the Government securities market if commercial banks were forced to liquidate unduly large amounts of securities in order to fulfill lending obligations to their customers.