

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

and further additions to the supply of bills. The current rate level caused attention in the market to focus on the Reserve Bank discount rate (3½ per cent) and the commercial bank prime rate (4½ per cent); uncertainties with respect to the latter rate were resolved when an increase to 5 per cent was announced on the morning of this meeting.

Aside from the influence of work stoppages attributable directly or indirectly to the steel strike, the economic picture presented at this meeting appeared to be one of widespread strength. Construction activity, although showing moderate decline from the all-time record level of April and May, was at a rate one-third higher than a year earlier. New orders and sales figures for durable goods manufacturers reflected marked strength in most lines, retail sales continued vigorous, and consumers continued to seek and incur instalment and mortgage debt at a near-record pace. After rising in June, United States exports reached a seasonally adjusted rate in July one-fifth above the level earlier in the year. While prices of industrial commodities showed relative stability, the consumer price average rose in four consecutive months through July, with a broad range of price increases.

Discussion at this meeting revealed cross currents of thinking with respect to the appropriate posture of System policy at this juncture. Among other things, it was pointed out that the level and trend of Treasury bill and other short-term market rates, together with the increase in the commercial bank prime rate, raised a substantial question as to the practicability of indefinite continuation of the existing Reserve Bank discount rate.

With respect to the appropriateness of the current degree of credit restraint, some sentiment was expressed to the effect that it would be a mistake to await settlement of the steel strike before moving to a more restrictive position. This point of view suggested that there should be some reluctance on the part of the System in meeting seasonal reserve needs and some increase in the level of net borrowed reserves. A different point of view expressed by one member of the Committee held that recent developments indicated that current System policy

was unduly restrictive and that its continuation might not be consistent with the System's objective of fostering longer-run economic growth and stability. This opinion suggested that System policy traditionally had sought to meet seasonal credit needs and that there should be no doubt about doing so at this time.

The majority of the Committee favored maintenance of the existing degree of pressure on reserve positions of banks in the period immediately ahead, but no intensification, which would mean supplying reserves to meet the usual seasonal increase in money and credit needs during the next few weeks. Factors influencing the thinking of the majority included the uncertainties attendant upon the steel strike and the further complications that might be created in the Government securities market by the exertion of additional restraint at this time.

Some consideration also was given to the possibility of a revision of the Committee's directive to the Federal Reserve Bank of New York. However, in view of the consensus that there should be no move at this point toward either more or less restrictiveness on reserves, the Committee made no change in the existing directive, providing for open market operations with a view to restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Chairman, Allen, Balderston, Deming, Erickson, King, Mills, Robertson, Shephardson, Szymczak, Bryan, and Treiber. Votes against this action: None.

September 22, 1959

**Authority to effect transactions in System Account.**

The directive to the Federal Reserve Bank of New York was renewed without change, continuing the Open Market Committee's policy of restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Balderston, Deming, Erickson, Johns, King, Mills, Robertson, Shepardson, and Szymczak. Votes against this action: None.

The Committee's decision to renew the existing policy directive was made after presentation and consideration of a detailed review of the national and regional economic and financial situation. Although no change was made in the directive that provided for restraint on inflationary credit expansion, the Committee qualified its instruction to the New York Reserve Bank with an understanding that to whatever extent operations in the open market for the System Account might result in deviations from the existing degree of restraint on the reserve positions of banks, such deviations preferably should be on the side of reducing restraint. The large majority of Committee members favored this understanding, but the opposite view was put forward, namely, that any such deviations from the existing degree of pressure be on the side of greater restraint.

This policy decision was made against the background of information showing that, despite the spreading effects of the steel and other strikes, economic activity and credit demands were continuing at a high level. The discount rates of all Federal Reserve Banks had been increased from 3½ per cent to 4 per cent since the September 1 meeting, and rates on the longest outstanding Treasury bills had been bid at above 5 per cent. Some uncertainties were expressed as to the near-term future, depending on the settlement of the steel strike, but with demand for credit continuing strong, bank reserve positions remained under pressure. The banks continued to dispose of Government securities to help in meeting loan demands, and the Government securities market had weakened around mid-September as nonbank holders liquidated securities to meet quarterly tax and dividend payments. Investor demand was low, the market supply of Treasury securities was large, and it was noted that a new short-term Treasury financing expected in October would add further to the supply of securities on the market.

Some concern was expressed about the difficulties that the Treasury might expect in its imminent cash financing operation. The point also was made that the anti-inflationary policy that had been followed for some months was contributing to a tempering of business and investor exuberance in forward expectations and planning. Another factor noted was that the seasonal increase in demand for credit during the fall of the year would tend automatically to increase pressure on banks, even though additional amounts of reserve funds were supplied to the market by the Federal Reserve in accordance with projections of aggregate needs of the banking system.

The conclusion of the Committee that the degree of restraint to be maintained in the market during the next few weeks should be about the same as in the recent past, but that any deviations preferably should be on the side of less restraint, was a reflection of such considerations as the foregoing, even though there was recognition of factors to suggest a rapid recovery in economic activity, perhaps developing boom characteristics, after production of steel was renewed.

October 13, 1959

*Authority to effect transactions in System Account.*

At its preceding meeting (September 22, 1959), the Open Market Committee made no change in the existing policy directive calling for restraint on inflationary credit expansion, with the instruction to the Federal Reserve Bank of New York qualified by the understanding that, to whatever extent System Open Market Account operations might result in deviations from the existing degree of restraint, such deviations preferably should be on the side of reducing the degree of restraint.

At the time of this meeting (October 13), the business and financial outlook was obscured by the cumulative impact of the steel strike. Important economic developments since late spring suggested a possibility that the danger of inflationary boom might have been overcome, although a positive judgment in this respect awaited settlement of the steel strike and the results flowing from such a settlement. The Committee's