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 analysis of the domestic situation gave little reason for either increasing restraints or providing additional stimulants to the economy, and in these circumstances the consensus favored watchful waiting and marking time in the period immediately ahead.

One member of the Committee, Mr. Mills, in whose opinion a moderating of the policy of credit restraint had long been in order, dissented from the policy indicated by the consensus, although only mildly at this particular juncture. Mr. Mills felt that a gradual shift in policy toward relaxation of restraint was called for and that a cautious approach in shaping the supply of reserves and expanding the availability of credit was required in order to avoid provoking an artificial distortion in the structure of interest rates. While certain other members of the Committee also favored a mild backing away from the present degree of restraint, in those cases the shades of difference involved were not sufficient to cause them to record disagreement with the policy indicated by the consensus. Mr. Mills, although dissenting to the extent indicated from a policy of watchful waiting and marking time, joined in the unanimous vote to continue the existing directive to the Federal Reserve Bank of New York, which provided for 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, Shepardson, Szymczak, and Treiber. Votes against this action: None.

November 4, 1959

Authority to effect transactions in System Account.

The Open Market Committee again renewed without change its directive to the Federal Reserve Bank of New York calling for 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. Hayes, Vice Chairman, Allen, Balderston, Deming, Erickson, Johns, King, Robertson, Shepardson, and Szymczak. Vote against this action: Mr. Mills.

Renewal of the directive reflected the conclusion of the Committee, after analysis of business and financial developments, that there should be no change in basic policy at this time and that in implementing the policy decision, operations for the Open Market Account should aim at maintaining a feeling of stability in monetary and credit conditions and assuring the availability of funds for seasonal credit needs.

In reaching its decision as to policy, the Committee gave careful consideration to the continuing lull in economic activity and in monetary and credit demands. This lull, which had been evident at the October 13 meeting and which led to the suggestion that current developments pointed less in the direction of inflationary boom than was earlier considered likely, was associated largely with the steel strike and its cumulative impact on various segments of the economy. Despite the strike, demand, particularly at the consumer level, remained strong, and an upward tilt was visible in prices for consumer goods and most basic industrial materials. Nevertheless, following a year of heavy pressures in the over-all demand for funds, some moderation of expansive pressures had appeared in late September and continued to characterize the financial markets. At this stage, however, it was questionable whether this moderating of pressures reflected a change in trend or simply a passing phase.

In voting against continuing the existing directive, Mr. Mills proposed revising clause (b) so that it would provide for "fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion." This suggestion reflected his judgment that uncertainties as to the future were strong enough to argue for a monetary and credit policy that would lessen the degree of restraint on credit expansion. Certain other Committee members expressed themselves as leaning toward a slight easing of restraint, but only to the extent that this might be accomplished within the framework of the existing policy directive. None expressed the view that there should be an intentional increase in the degree of restraint at this time.

November 24, 1959

Authority to effect transactions in System Account.

The policy directive providing for restraint on inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities was again renewed by the Open Market Committee.

> Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Allen, Deming, Erickson, Johns, King, Robertson, Shepardson, and Szymczak. Vote against this action: Mr. Mills.

The consensus of this meeting favored maintaining the same degree of restraint. In reaching this conclusion as to the objective that should guide open market operations in the ensuing three-week period, the Committee had in mind that the period of heaviest pre-Christmas drain on reserves was now beginning and that the financial markets would be subject to the usual special pressures of the season. In addition, the $2 billion Treasury cash financing operation for which subscriptions were being received the day of this meeting suggested no change in the degree of restraint.

Activity in the steel industry had been resumed for approximately two weeks, after a four-month interruption, under a Taft-Hartley Act injunction. Steel production had climbed to about 80 per cent of capacity in the week before this meeting, and a 90 per cent rate was estimated for the current week. Nevertheless, the outlook as to the rate of economic advance remained uncertain, particularly since it was not yet known when and how the steel and other major labor disputes might ultimately be settled and what would be the continuing and indirect effects of shortages that had accumulated during the work stoppage.

Evidence of the underlying strength in the business situa-

tion that had prevailed despite the strike led to expression of the view by some members of the Committee that settlement of the steel dispute might result in a sharp upsurge marked by unsustainable elements of expansion and strong pressures for price increases. Those expressing this view urged that the trends be watched carefully, although they did not propose that the current degree of credit restraint should be intensified at this point. The view also was presented that the System should be ready to move in the direction of lessening restraint if a pattern of reduced pace of economic expansion should emerge. It was noted, among other things, that stability of the money supply and money velocity had prevailed over recent months and that the seasonal growth of bank credit this fall had been somewhat below normal, reflecting at least in part a slackening in economic activity and monetary needs related to the steel stoppage. At the same time, the public's holdings of liquid assets in the form of short-term Government securities had continued to increase. Under all these circumstances, the consensus was that the current open market position was not unduly restrictive or stimulating and should be continued.

Mr. Mills, who voted against continuing the existing policy directive, renewed the suggestion he had made at the meeting on November 4 that clause (b) be amended to provide for "fostering sustainable economic growth and expanding employment opportunities while guarding against inflationary credit expansion." This suggestion reflected his view that the availability of credit had been brought to a point where the commercial banking system was restricted in making its normal contribution creditwise to growth and stability.

December 15, 1959

Authority to effect transactions in System Account.

The Open Market Committee continued the policy directive calling for restraint on inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.