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.

The Federal Open Market Committee met 18 times during 1957, and the policy actions taken at those meetings are reported on the following pages by date of meeting, together with the record of votes on each such action. In addition to these meetings, the Committee held a telephone conference of the available members on April 24, 1957 for the purpose of discussing informally the instructions that had been issued at the preceding meeting. No policy actions were proposed or taken during that discussion.

January 8, 1957

1. Authority to effect transactions in System account.

The Committee changed clause (b) of the first paragraph of its directive to provide for open market operations with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation." Since November 27, 1956 this clause had read "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."

> *Votes for this action:* Messrs. Martin, Chairman, Hayes, Vice Chairman, Balderston, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, and Szymczak. *Votes against this action:* None.

The domestic economic situation, as of this meeting, was summarized as strong and still on the inflationary side; while abroad it was partly slackening and partly steady in Europe and inflationary outside Europe. Commodity prices were continuing to tend upward, industrial production had risen slightly in December from the November level and a further rise appeared possible for January, construction activity had been holding close to record levels, total employment was close to the highest levels reported for this season of the year, business inventories had shown a spurt in November (the latest month for which data were available), new orders in durable manufacturing in November exceeded slightly previous record levels, and personal income in November had been 6 per

cent ahead of a year earlier. Department store sales in November and December had shown similar gains over the previous year. The full year 1956 represented close to capacity performance for the domestic economy, and this had taken place while the rate of increase in the privately held monetary stock had declined, the money supply having averaged only 1.3 per cent greater in the course of 1956 than in 1955. Although there had been a more active use of the existing money stock, the cumulative effects of the slower growth in the privately held money stock had operated to retard the further expansion of aggregate demand for goods and services in relation to output and to damp down inflationary pressures.

This business picture showed essentially no change since the December 10 meeting of the Committee, although there were intimations that the upward thrust of the economy might be losing some of its momentum. System open market operations during the closing weeks of 1956, as called for by the directive approved at the November 27 and December 10 meetings, had been designed to meet expected heavy liquidity needs of the period due to seasonal and special international factors. They had, in effect, been conducted so as to prevent any increase in restrictive pressures beyond those previously applied and had actually relaxed pressures somewhat. There had been continued pressures on the market, however, because of the very heavy credit demands, some of which reflected more than the usual business borrowing to meet end-of-year financial needs, owing in part to the reduced liquidity of business. These developments indicated that credit demands continued to be vigorous.

With the economy operating at close to capacity limits and with prices continuing to rise, the change in the policy directive to delete the reference to seasonal factors that brought additional pressures and which had called for some adjustment of policy in the last few weeks of 1956 seemed appropriate. At the same time, the revised wording registered an awareness by the Committee of the possibility of unduly severe restraint inherent in the current low level of corporate liquidity and in the financing program ahead. In other words, the directive issued at this first meeting of 1957 continued the policy of restraint upon credit expansion that had been in effect for approximately two years, but it represented an adjustment from the program followed in the last few weeks of 1956 when funds had been put into the market to help meet added seasonal pressures within the limits of the policy of restraint.

2. Resolution concerning International Monetary Fund transactions.

The Committee approved the following resolution: "Resolved, that the Federal Open Market Committee express no views with respect to the form in which the International Monetary Fund chooses to draw upon its dollar resources."

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

This resolution was a response to an inquiry by the United States Executive Director of the International Monetary Fund who had inquired whether the Federal Reserve System would see objection to use by the Fund of some of its gold holdings in meeting prospective drawings against the Fund. In concluding that it would express no views as to the form in which the Fund might choose to draw upon its dollar resources, the Committee sought to preserve the utmost freedom to the Fund in meeting its problems. It was not felt that the Federal Reserve System should tell the Fund or any other agency how it should carry out its responsibilities. The Committee wanted, however, to be kept informed by the Fund in advance of its operations in the American market and appreciated having had an opportunity to know of and consider the current proposal. In keeping with this approach, the Committee felt that the System should follow monetary policy that fitted the circumstances whenever external factors occurred. Thus, in approving the resolution it was understood that the Committee's operations would be used to offset the influence of the operations of the Fund in accordance with whatever the Committee's policy might be.

January 28, 1957

1. Authority to effect transactions in System account.

The Committee made no change at this meeting in the wording of its directive to the Federal Reserve Bank of New York, thus continuing in effect the policy decision that operations for the System open market account should be with a view, among other things, "to restraining inflationary developments in the interest of sustainable economic growth while recognizing unsettled conditions in the money, credit, and capital markets and in the international situation."

Votes for this action: Messrs. Martin, Chairman, Hayes, Vice Chairman, Erickson, Fulton, Johns, Mills, Powell, Robertson, Shepardson, Szymczak, and Vardaman. Votes against this action: None.

At the time of this meeting the economic situation domestically remained one of intensive utilization of manpower and other resources and of demand pressure on price levels. Abroad, output and employment generally continued at high levels with price trends most typically on the upside. Domestic industrial production for January was turning out to be at about the same level as in December.

There were at the same time developments that suggested that the economy might be losing some of its upward momentum. While these data were not sufficient to support a forecast of a downward turn as a clear, nearby prospect, they suggested that the economy might be entering a period of sidewise movement. For example, a tendency for total capital expeditures to level off was evidenced by recent figures for factory construction contracts, new machine tool orders, and freight car orders, together with scattered announcements of postponements of plant construction projects. There were cross currents in the area of prices with higher costs showing up in increased prices for finished goods, both at wholesale and at retail, in contrast with a softening trend in prices of a number of primary products. Business loans at all reporting member banks after a fourth quarter rise of $1.6 billion declined by more than $700 million in the three weeks to mid-January, a postwar record decline for the period that compared with a drop of $355 million a year earlier. A rapid decline in security loans had also occurred and about three-fourths of the total rise in loans during the fourth quarter of 1956 had been wiped out. December's sharp rise in interest rates had been followed by an equally sharp decline, the tight tone of the money market by a feeling of ease. The contraction in bank loans that had occurred since the latter part of December had taken place