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 come, and employment showed increases, while unemployment in May fell below 5 per cent of the labor force for the first time since the end of 1957. Businesses were adding to their inventories at an unusually high rate and had revised upward their plans for new plant and equipment expenditures. Total bank credit expansion, including that of the Federal Reserve Banks, appeared to have been adequate to meet the persistent gold outflow and provide for further expansion of the money supply. Abroad, general economic expansion seemed clearly in process, with principal foreign countries continuing to show a strong balance-of-payments situation and to accumulate gold and dollar reserves.

On the basis of business and credit conditions and in view of the forthcoming Treasury financing, the consensus favored continuance of the present open market policy of restraint on inflationary credit expansion. While a number of Committee members expressed the hope that the Account Management would be able to avoid any development of less restraint against credit expansion, others urged caution against operations that might result in excessive tightness.

With no change in policy indicated by the consensus at the meeting, the Committee continued without change the directive, adopted at the May 26 meeting, which was stated in terms of restraining inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities.

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

July 7, 1959

Authority to effect transactions in System Account.

It appeared to the Committee that a number of major expansive influences that had been operating in the economy, including residential construction, inventory accumulation, and gains in industrial productivity, might now have passed their maximum rates of growth and that some slowdown in the

rapid pace of advance could be expected during the next few months. A major industrial uncertainty was the possibility of a strike in the steel industry. However, for the period up to the time of this meeting, the data reflected continuation of a vigorous expansion in economic activity. Industrial production apparently had increased further in June, while estimates placed gross national product for the second quarter up $10 billion from the first quarter of the year in terms of both current and constant dollars. Expanding consumer demand was being supported by a rapid growth of consumer instalment credit, which increased in the April-May period at an annual rate in excess of $5 billion.

During June, money markets were under pressure from continued strong credit demands. The restricted availability of bank reserves made it necessary for banks to reduce their holdings of securities by large amounts in order to meet these demands, and a high level of borrowings at the Federal Reserve Banks also kept the banks under restraint. It now appeared that growth in the money supply during the first six months of 1959 had been at an annual rate of about 2 per cent but that only a small increase had taken place in May and none in June.

At the time of this meeting, interest in the Government securities market focused on the new Treasury financing, which involved the offering of a total of $5 billion of bills at auctions on July 1 and July 8 in addition to the regular weekly bill auctions. There had been pronounced increases in interest rates in recent weeks, and in the regular Treasury bill auction on the day preceding this meeting demand for both long- and short- bills was light, resulting in an average rate of 3.26 per cent for the 91-day bills and 3.96 for the 182-day bills. Awards to dealers had totalled $587 million, and the result of that auction indicated another upward adjustment in bill rates.

For the period immediately ahead, it was the consensus that there should be no change in open market policy. However, in view of the difficult Treasury financing situation, the instruction to the Manager of the System Open Market Account was tempered with the proviso that, in carrying on operations for the Account, doubts should be resolved on the side of ease during the period of Treasury financing.

In view of the decision of the Committee to make no change in policy, and with the indicated understanding as to resolving doubts on the side of ease, the directive calling for restraint on inflationary credit expansion in order to foster sustainable economic growth and expanding employment opportunities was again renewed without change.

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

July 28, 1959

Authority to effect transactions in System Account.

At this meeting the Open Market Committee continued without change the policy directive providing for restraint on 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, Mills, Robertson, and Shepardson. Votes against this action: None.

Financial developments during July had been dominated by the massive Treasury operations, which included not only the raising of $5 billion of new cash through two bill offerings but the subsequent refunding of $14 billion of issues maturing on the first of August. Difficulties and uncertainties connected with the earlier Treasury operations resulted in a sharp rise in rates to the level of 4¾ per cent for a one-year issue, but this rate attracted funds from widespread sources. The refunding offer at 4¾ per cent on both a 12½ month issue and a 4-year, 9-month issue was successful, with unusually low attrition. As a consequence, the tone of the Government securities market had improved somewhat, and the amount of prospective new Treasury financing in mid-August was reduced.

(On July 16, 1959, the Open Market Committee, by poll of the available members, authorized exchange of as much as one-half of System Open Market Account holdings of $8,143 million of Treasury certificates of indebtedness maturing August 1, 1959, into 4¾ per cent notes maturing May 15, 1964, the remainder to go into 4¾ per cent notes maturing August 15, 1960. Only $2.6 billion of the Account's certificate holdings actually were exchanged into the 1964 notes. The purpose of this authorization was to assist the Treasury in evening out the maturity schedule.)

Almost all recent economic data continued to reflect rapid growth. Expansion in the second quarter of 1959 proved to have been more vigorous than earlier figures had indicated, with gross national product rising at an annual rate of $13 billion above the previous quarter. The increase over the quarter in physical volume amounted to about $10 billion, so that there was $3 billion of inflationary price rise, i.e., an annual rate of a billion dollars a month. Consumer spending advanced by the near-record rate of $7.5 billion during the quarter. Demand for producer durable goods was strong, reflecting both increased consumer spending and rising business investment, and construction activity continued at close to peak levels in June. Although wholesale prices of industrial commodities marked time, the consumer price index showed an abrupt rise of .4 per cent in June. A major uncertainty was introduced into the economic situation by the steel strike that began July 15 after extensive negotiations failed to produce a settlement. Another matter of concern accompanying the expansion in business was the balance-of-payments situation; it now appeared that the total accumulation of gold and dollar assets by foreign accounts in 1959 might be over $4 billion, compared with $3.4 billion in 1958.

The generally strong business picture, the strength of credit demands, the need to keep the Treasury's seasonal deficit financing in the next few months from swelling the money supply unduly, prospective wage and price developments, and the failure of the balance of payments to show improvement appeared clearly to justify continued monetary restraint. On the