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

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 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 accom-