THIRTY-FOURTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1947

RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE

MARCH 1, 1947

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Clayton; Mr. Davis; Mr. Draper; Mr. Evans; Mr. Gidney; Mr. Peyton; Mr. Vardaman; Mr. Whittemore.

(A meeting of the Federal Open Market Committee—the last before the members of the Committee took office who were elected as representatives of the Federal Reserve Banks for terms of one year beginning March 1, 1947—was held on February 27 for the purpose of ratifying actions which had been taken under existing policies and of discussing developments in the international and domestic monetary and credit situation. At that meeting no policy actions were taken.)

1. Authority to Effect Transactions in System Account.

Upon motion duly made and seconded, and by unanimous vote, the following direction to the executive committee was approved:

The executive committee be directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary in the practical administration of the account or for the purpose of maintaining an orderly market in Treasury securities and a general level of prices and yields of Government securities which will support the Treasury issuing rates of 7/8 per cent for one-year certificates and 2½ per cent for 27-year bonds restricted as to ownership; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) bills purchased outright in the market on a discount basis at the rate of 3/8 per cent per annum and bills redeemed at maturity and (2) 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 1.5 billion dollars.

That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the purchase for the System open market account direct from the Treasury of 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 amount of such certificates held in the account at any one time shall not exceed 1.5 billion dollars.

When this meeting was held the members of the Committee had the benefit of recent discussions of the members of the executive committee, and of representatives of the full Committee with representatives of the Treasury, with respect to the changes that might be made in Treasury financing, debt management, and System credit policies to adjust them to changing conditions. Since the previous meeting there had been further discussions of the desirability of the termination by the Federal Open Market Committee of the 3/8 per cent rate at which the Federal Reserve Banks stood ready to purchase bills, a change in procedure to provide for the direct replacement of maturing Treasury bills held by the Federal Reserve Banks, an increase in the rate at which bills were issued by the Treasury, and steps that might be taken to return to the Treasury the increased earnings of the Federal Reserve Banks which would result from an increase in the bill rate. Consideration was also given to the means available to combat the resumption, when the current debt retirement program came to an end, of pressure on the long-term rate which would result from sales by banks of short-term Treasury issues and the purchase of long-terms for the purpose of improving earnings.

The Treasury debt retirement program, which was designed to keep the reserve position of member banks under pressure, had been continued and, with the announced retirement of 2.9 billion dollars of securities maturing in March 1947, would result in cash payments on maturing securities of 4.2 billion in the first three months of 1947 and of 27.4 billion since March 1, 1946, with a net reduction in the debt of 21 billion dollars during the 13-month period. Treasury receipts had been higher and expenditures lower than anticipated and it appeared that additional amounts of Government securities could be retired during the remaining months of the fiscal year.

It was the view of the Committee that the posted rate of 3/8 per cent for the purchase and sale of Treasury bills by the Federal Reserve Banks no longer served its original purpose and should be discontinued. It was felt that action should not be taken, however, until the question of future policy with respect to Treasury bills had been more fully established. It was agreed, therefore, that action to terminate the rate might be deferred temporarily.

For the reasons which prompted the open market policy actions of the Committee in 1946 and because of the continued inflationary conditions which are reviewed in the *Annual Report* of the Board of Governors of which this record is a part, the Committee continued to be of the opinion that monetary and credit policy should be directed, as a part of the program of the Government for combating inflation, toward restraining the further expansion of bank credit without increasing the cost of carrying the Government debt. The above direction was issued in order to continue the existing open market policies of the System, which were designed to keep pressure on the reserves of member banks while, at the same time, maintaining orderly conditions in the Government securities market. This involved the continuation of a general level of prices and yields of Government securities which would support the Treasury issuing rates on Treasury certificates and long-term Treasury bonds.

The direction set forth above was in the same form as the direction issued at the previous meeting of the committee on October 3, 1946, except that the limitation contained in the first paragraph on the amount by which the total securities held in the account could be changed was reduced from 2 billion dollars to 1.5 billion. This change was made for the reason that it was anticipated that smaller Treasury operations in connection with the retirement of public debt would make the larger authority unnecessary.