THIRTY-NINTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1952

RECORD OF POLICY ACTIONS
FEDERAL OPEN MARKET COMMITTEE

March 1, 1952

(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 a term of one year beginning March 1, 1952—was held on February 29, 1952 for the purpose of ratifying actions which had been taken under existing policies and of discussing developments in the monetary and credit situation since the last meeting of the Committee. No policy actions were taken at that meeting.)

1. Authority to Effect Transactions in System Account.

The following direction to the executive committee, which was in the same form as the direction issued at the meeting on November 14, 1951, was approved:

> The executive committee is 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 light of current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; provided that the aggregate amount of securities held in 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 2 billion dollars.
>
> The executive committee is 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 total amount of such certificates held in the account at any one time shall not exceed 2 billion dollars.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Bryan, Earhart, Evans, Leach, Mills, Powell, Robertson, Szymczak, Vardaman, and Young. Votes against this action: none.

Since its meeting on October 4, 1951, the Federal Open Market Committee had pursued a policy of so-called "neutrality" in making reserves available, with a view to permitting market forces of supply and demand to operate with a minimum of Federal Reserve intervention except to promote orderly market conditions. This policy implied restraint on further expansion of bank credit but it was not designed to bring about an actual contraction in the existing volume of such credit. Under the policy, the System contemplated that principal reliance for additional Federal Reserve credit, to support increased bank loans and investments, would be placed on member bank borrowings from the Federal Reserve Banks and that open market operations would be limited as much as possible to supplying such additional demands as might be necessary to avoid undue restraint. At the same time, this policy permitted greater initiative in the choice and timing of actions to absorb funds through security sales from the System account when reserves were redundant.

The most significant developments in the Government security market since the last meeting of the Federal Open Market Committee had occurred in the short-term sector. The opening weeks of the period were featured by a strong and fairly-sustained net demand for short-term Treasury obligations, especially bills, on the part of nonbank investors and, at times, commercial banks. In response to that buying interest and in accordance with the policy stated above, sales of bills and certificates were made from the System account through November 21, 1951, so as to absorb reserves, and these sales were effective in exercising some restraint on the money market. The Treasury's offering of certificates of indebtedness in exchange for the 2¼ per cent bonds of December 15, 1951, for which the subscription books were opened on December 3, was easily accomplished and there was little need for System support of that financing.

The convergence of peak seasonal credit demands around the middle of December 1951, the liquidation of short-term Government securities by corporations, the quarterly tax payments, and a demand for holiday currency created substantial pressure on reserve positions of banks in December. A further complication resulted from uncertainties as to interest rate prospects. In order to prevent these combined circumstances from building up excessive pressure in the market, purchases were made for the System account during December, but these additional reserve funds were withdrawn through sales from the account as soon after the turn of the year as that could be done without disturbing the market.

At the time of this meeting on March 1, 1952, the economic picture was one of approximate balance at high levels of activity—a situation that had continued for approximately a year during which there had been an important measure of credit restraint. While there were some factors that suggested the possibility of downward adjustments in prices and decreases in some phases of business activity, there were also in prospect factors that would tend to generate inflationary pressures, particularly the expanding defense program and the continued high level of capital expenditures by business. Although it appeared that there would be a substantial Federal cash deficit for the entire calendar year 1952, it was clear that the impact in the market of most of the deficit would not be felt until the second half of the year. In the meantime, individual savings were continuing at a high rate and promised to provide funds to meet at least part of the credit demands from Government and private sources. The objective of credit policy was to maintain conditions that would be conducive to the meeting of credit demands as much as possible through the use of available savings with a minimum of new money creation through bank credit.

The direction to the executive committee quoted above was adopted, therefore, with a view to continuing the policy which had been pursued for several months. This was in accord with the discussions of the Committee at its meeting on the previous day. Continuance of this policy was based on the Committee's judgment that no major disturbances in the market in either direction were to be expected in the near future, that while additional restrictions on credit seemed unnecessary at the time, relaxation of restraint was not called for, and that measures adopted should continue to be such that they would act to restrain any resumption of inflationary pressures.

The limitation in the second paragraph of the direction was increased from 1 billion to 2 billion dollars in view of the prospect that the Treasury might wish to sell short-term securities direct to the Federal Reserve Banks in an amount approximating 1¼ billion in order to smooth the effects of income tax collections over the March tax payment period.

JUNE 19, 1952

1. Authority to Effect Transactions in System Account.

The direction to the executive committee set forth below, which was in the same form as the direction issued at the meeting on March 1, 1952, was approved with the understanding that, if the authority contained in Section 14(b) of the Federal Reserve Act to purchase securities directly from the Treasury were not extended by Congress beyond June 30, 1952, the authority given in the second paragraph of the direction would terminate on that date. On June 23, 1952, the President signed Public Law No. 405, continuing such authority until June 30, 1954.

> The executive committee is 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 light of current and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account, provided that the aggregate amount of securities held in 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 2 billion dollars.
>
> The executive committee is 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 total amount of such certificates held in the account at any one time shall not exceed 2 billion dollars.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Bryan, Earhart, Evans, Leach, Mills, Powell, Robertson, Szymczak, Vardaman, and Young. Votes against this action: none.

At the time of this meeting, economic activity was continuing at a high level notwithstanding the steel strike; the situation was one of approximate balance with inflationary pressures potential rather than active. Bank loans had shown less than the usual seasonal contraction in recent months and total credit had expanded more than had been anticipated, but wholesale prices had not changed much although retail prices had risen somewhat. The System's policy of "neutrality" had become increasingly one of restraint as credit demands had expanded. Some relief had been given by putting funds into the market during temporary periods of stringency through purchases of short-term securities and through purchases from dealers under repurchase agreements. However, a major part of the additional reserve funds needed by the market to meet the combined demands of a rise in currency in circulation and an increase in required reserves was obtained through borrowing by member banks from the Federal Reserve Banks, as was indicated by the fact that member bank borrowings at the Federal Reserve Banks during May and the first half of June averaged well above a half billion dollars.

The degree of tightness in the money market, together with the continuing high rate of private capital expenditures, indicated that, to meet seasonal and other essential credit demands later in the year, the System might find it