

THIRTY-SECOND

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1945

## RECORD OF POLICY ACTIONS FEDERAL OPEN MARKET COMMITTEE

MEETING ON MARCH 1, 1945

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Williams; Mr. Gidney; Mr. Leedy; Mr. Gilbert.

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, 1945), was held on February 28, 1945, for the purpose of ratifying actions which had been taken under existing policies and to discuss matters relating to Treasury financing. At that meeting no policy actions were taken.

### 1. Authority to Effect Transactions in System Account.

At the meeting on March 1, 1945, upon motion duly made and seconded, and by unanimous vote, the following direction to the executive committee was approved:

That 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 about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; 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 \$1,500,000,000.

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 \$1,500,000,000.

The open market policies of the System continued through the year 1944 to be determined on the basis of the needs of war financing and were designed to continue the assurance of an adequate supply of member bank reserves and to exert an influence toward the maintenance of conditions in the Government security market that would be satisfactory from the standpoint of Government requirements. When this meeting of the Committee was held, plans were being made for the Seventh War Loan Drive which would result in a further large increase in Treasury borrowing. It also appeared that as long as the war lasted

there probably would be a continued increase in currency in circulation, coupled with a further reduction in the monetary gold stock of the United States, all of which would require large additional amounts of reserve funds to be supplied by the Federal Reserve Banks. In these circumstances the Committee was of the opinion that there was no occasion for a change in its existing general policy, and that it should renew the outstanding direction to the executive committee to arrange for the purchase and sale of securities for the System account. This was accomplished by the approval of the direction set forth above, which was in the same form as the direction issued at the previous meeting of the Federal Open Market Committee on December 11, 1944.

### 2. Purchase by Federal Reserve Banks of Treasury Bills at Posted Discount Rate.

Upon motion duly made and seconded, the following direction to the Federal Reserve Banks was approved by unanimous vote, with the understanding that resales of Treasury bills held under option would be for immediate delivery when so requested by the option holder:

Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of 3/8 per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller before the maturity of the bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all transactions in Treasury bills are to be made to the Manager of the System Open Market Account.

The above direction was in the same form as that issued by the Committee on March 1, 1944, with respect to the purchase of Treasury bills except that the last sentence was changed to provide that the Federal Reserve Banks should make prompt reports of all transactions in Treasury bills (instead of reports of purchases only) to the Manager of the System Open Market Account. The direction was renewed for substantially the same reasons as when the earlier action was taken and was presented for the purpose mainly of affording the incoming representatives of the Federal Reserve Banks who were elected as members of the Committee for terms of one year beginning March 1, 1945, an opportunity to vote on the question of policy involved. The change in the last sentence of the direction was merely to conform the language of the direction to the present practice of reporting all transactions in Treasury bills to the Manager of the System Open Market Account.

MEETING ON JUNE 20, 1945

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Williams; Mr. Gidney; Mr. Leedy; Mr. Gilbert.

### 1. Authority to Effect Transactions in System Account.

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

That 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 about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; 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 \$2,000,000,000.

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 \$1,500,000,000.

When this action was taken the Seventh War Loan Drive was nearing completion. It was evident to the Committee that, although the European phase of the war had come to an end, there was little likelihood of any decline in war expenditures during the period before another meeting of the Committee and, for that reason, the need for reserve funds would continue to be large. In fact, it was estimated that if the next meeting of the Committee were held in October of this year it would be necessary for the Federal Reserve Banks to put into the market in the neighborhood of \$2 billion in order to supply the funds that would be needed. In view of this situation, the Committee decided that its existing general policy should be continued for substantially the same reasons as prompted its adoption. Accordingly, the above direction was approved in the same form as the direction issued at the meeting of the Committee on March 1, 1945, except that, for the reason set forth above, the limitation contained in the first paragraph on the amount by which the total securities held in the System account could be increased was raised from \$1,500,000,000 to \$2,000,000,000.

#### MEETING ON OCTOBER 17, 1945

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Szymczak; Mr. McKee; Mr. Ransom; Mr. Draper; Mr. Evans; Mr. Williams; Mr. Gidney; Mr. Leedy; Mr. Gilbert.

##### 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:

That 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 about the present general level of prices and yields of Government securities, or for the purpose of maintaining an adequate supply of funds in the market; 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 \$2,000,000,000.

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 \$1,500,000,000.

Since the preceding meeting of the Committee the war had come to an end and the Treasury had announced the Victory Loan Drive as the last great public drive to be held. With the approach of the termination of the war the Committee at previous meetings had considered the need for reformulating the credit policies of the System, on the basis of possible postwar conditions. It gave particular consideration to abuses that had grown up in the Government security markets, including speculative purchases of securities during the war loan drives and sales by banks of short-term securities to the Federal Reserve Banks to obtain funds with which to purchase long-term securities which had created reserves in amounts greater than were needed for the successful financing of the war and which were adding to inflationary pressures. A discussion of these problems will be included in the report of the Board of Governors to Congress.

At this meeting the open market policies of the System were reviewed in the light of these considerations and of an estimate before the Committee that it would be necessary for the Federal Reserve Banks between the date of this meeting and the end of the Victory Loan Drive, to purchase between \$1.5 billion and \$2 billion of Government securities for the purpose of providing the funds which would be needed to meet anticipated increases in currency in circulation and in required reserves of member banks. It was felt that the reasons on which the existing policies of the Committee were based made it desirable to continue these policies through the remainder of the current year and the direction set forth above, which was in the same form as the direction issued at the meeting on June 20, 1945, was approved for that purpose. In this connection it was understood that the executive committee would continue its discussions with the Treasury of the problems arising with the termination of the war as well as the System's postwar credit policies and the policies of the Treasury with respect to management of the public debt.