

THIRTY-FIFTH

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1948

## RECORD OF POLICY ACTIONS FEDERAL OPEN MARKET COMMITTEE

MARCH 1, 1948

(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, 1948—was held on February 27, 1948, for the purpose of ratifying actions which had been taken under existing policies and of discussing developments in the monetary and credit situation. At that meeting no policy actions were taken.)

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

The following direction to the executive committee 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 the general credit situation of the country, for the practical administration of the account, for the maintenance of stable and orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market to the needs of commerce and business; 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 3 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 1.5 billion dollars.

Votes for this action: Messrs. Eccles, Sproul, Clayton, Draper, Evans, Gilbert, Leedy, Szymczak, Vardaman, Williams, and Young.  
Votes against this action: none.

During February a very sharp decline occurred in prices of farm products and foods which served to weaken somewhat the pressure on the general price level. Although the future trend was not clear when this meeting was held it appeared that the underlying economic conditions would foster further upward price movements and that the situation would continue to be fundamentally an inflationary one. The volume of capital expenditures and consumer buying which characterized 1947 had continued into 1948 and the demand for funds was reflected in part in very large sales of Treasury bonds to the System account and in further increases in bank loans. For reasons outlined in the Annual Report of the Board of Governors for the year 1948,

of which this record is a part, these movements, together with an inflow of gold and a return flow of currency, were adding to the inflationary pressures in the economy. In the period December 9, 1947 to February 28, 1948, inclusive, total securities in the System account declined by approximately 900 million dollars. However, the composition of the account changed very materially, Treasury bill holdings having been reduced by about 3 billion dollars and certificates by about 2.9 billion, while note holdings increased nearly 300 million and bonds 4.5 billion.

Since the meeting of the Committee on December 9, 1947, the policy of combating inflation had been further implemented by additional retirements of maturing Government debt, a downward revision on December 24, 1947, of the prices at which the System would purchase Treasury bonds in the market in carrying out the policy of maintaining the long-term issuing rate on Government securities, an increase in the issuing rate of one-year Treasury certificates from 1 to  $1\frac{1}{8}$  per cent followed by an increase in January in the discount rates of the Federal Reserve Banks from 1 to  $1\frac{1}{4}$  per cent, and an increase in February in reserve requirements of central reserve city banks from 20 to 22 per cent of net demand deposits.

Discussions with the Treasury had continued during the period and the representatives of the Federal Open Market Committee had expressed the opinion that Federal Reserve credit and Treasury debt management policies during the immediate future or until conditions changed should be determined with a view to exercising continuing restraint upon the expansion of bank credit. It was also suggested that the existence of a large Treasury surplus during the first quarter of the year would be the principal weapon available in the credit field for combating inflation, that retirement of Government securities held by the Federal Reserve Banks should be continued as long as surplus funds were available and that funds of the Treasury held in war loan accounts should be withdrawn at such times as would aid in carrying out the policy of keeping bank reserves under pressure. A further proposal was that at the proper time it would be desirable for the rate on one-year Treasury certificates to rise to  $1\frac{1}{4}$  per cent with a further increase in the discount rates of the Federal Reserve Banks. There was also discussion of the desirability of channeling withheld tax payments through war loan accounts and of the issuance of a new series of savings notes the yields on which would be more in line with existing short-term rates.

The approval of the direction adopted at this meeting, which was in substantially the same form as the direction issued at the meeting on December 9, 1947, continued the existing open market policy of the Committee which, as part of the program outlined above, was for the purpose of keeping pressure on the market and thereby restraining the expansion of bank credit while at the same time continuing the policy of supporting the long-term rate on Government bonds.

MAY 20, 1948

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

The following direction to the executive committee 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 the general credit situation of the country, for the practical administration of the account, for the maintenance of stable and orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market to the needs of commerce and business; 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 1.5 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 1.5 billion dollars.

Votes for this action: Messrs. McCabe, Sproul, Clayton, Draper, Eccles, Evans, Gilbert, Leedy, Szymczak, Williams, and Young. Votes against this action: none.

Although important changes in the economic situation had occurred since the previous meeting of the Federal Open Market Committee, they did not change the fundamentally inflationary situation with which the Committee had to deal. It was the view of the Committee, therefore, that its existing anti-inflationary policy of keeping pressure on the money market for the purpose of restraining the expansion of bank reserves should be continued and the above direction was issued for that purpose. In taking this action it was understood that discussions with the Treasury of credit and debt management policies would be continued with a view to a further increase in the short-term rate to be followed at the appropriate time by an increase in the discount rates at the Federal Reserve Banks and in reserve requirements of banks in central reserve cities.

The direction was in the same form as the direction issued at the meeting of the Committee on March 1, 1948, except that the limitation contained in the first paragraph on the amount by which the securities in the account could be increased or decreased was reduced from 3 billion dollars to 1.5 billion. The reduction was made because it was felt that the factors affecting the Government securities market and the changes in the System account that would be required to carry out System policies in the interim before another meeting of the Committee would not call for a larger authority.

OCTOBER 4, 1948

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

The actions of the members of the Federal Open Market Committee on August 11 and September 24, 1948, increasing from 1.5 billion dollars to 3 billion and from 3 billion to 4 billion, respectively, the limitations on the authority of the executive committee with respect to increases or decreases in the total amount of securities in the System account, as contained in the first paragraph of the direction issued at the meeting of

the Federal Open Market Committee on May 20, 1948, were approved, ratified, and confirmed.

Votes for this action: Messrs. McCabe, Sproul, Clayton, Draper, Eccles, Evans, Gilbert, Leedy, Szymczak, Williams, and Young. Votes against this action: none.

Following the previous meeting of the Committee pressure on the market for restricted Treasury bonds developed to an unexpected extent and during the latter part of the period the pressure on bank eligible bonds again increased. By August 11 Treasury bonds held in the System account had increased from 6.3 billion dollars on May 19 to 7.2 billion and by September 24 these holdings had grown to about 9 billion. Holdings of certificates had also increased. It appeared at the time the actions of the members of the Committee were taken that pressure on the bond market would continue for a further period and the increased authorities were approved in order that the executive committee might carry out the policy of supporting the long-term rate on Treasury bonds and maintaining stable and orderly conditions in the Government security market.

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

The following direction to the executive committee 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 the general credit situation of the country, for the practical administration of the account, for the maintenance of stable and orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market to the needs of commerce and business; 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 1.5 billion dollars.

Votes for this action: Messrs. McCabe, Sproul, Clayton, Draper, Eccles, Evans, Gilbert, Leedy, Szymczak, Williams, and Young. Votes against this action: none.

When this meeting of the Committee was held the inflationary elements in the economy continued strong and an appraisal of the situation appeared to justify the conclusion that the prospects for the rest of 1948 were clearly expansionary and that a downturn was not to be expected even if some of the "soft spots" in the economy should spread. Discussion by members of