

THIRTY-FIFTH

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1948

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

the executive committee and by representatives of the full Committee with representatives of the Treasury had continued since the previous meeting of the Committee and several actions had been taken to carry out the anti-inflationary program of keeping the reserve position of banks under pressure and discouraging further inflationary credit expansion.

Effective June 11, 1948, the Board of Governors increased reserve requirements on demand deposits of member banks in central reserve cities by 2 percentage points and following the granting of increased authority at the special session of Congress in August reserve requirements of all member banks were increased by 2 percentage points on demand deposits and 1½ percentage points on time deposits, effective September 16 for non-reserve city banks and September 24 for reserve and central reserve city banks. On August 9 the Treasury announced that the certificates and notes maturing on October 1 would be refunded into 1¼ per cent certificates. This announcement was followed by an adjustment in short-term rates to bring them in line with the 1¼ per cent rate and by an increase in the discount rates at all Federal Reserve Banks from 1¼ per cent to 1½ per cent. On August 18 the Treasury announced a new issue of savings notes, Series D, with a higher scale of interest rates than the previous issue. On August 19 the Board of Governors announced the reissuance of its regulation on consumer instalment credit under authority granted by the special session of the Congress. During the period the Treasury continued to manage its balances with the Federal Reserve Banks and in war loan accounts so as to further the policy of keeping pressure on bank reserves and to utilize available balances to retire maturing debt. To the extent possible, the effects on bank reserves of securities purchased for the System account in carrying out the policy of supporting the long-term rate on Treasury bonds and maintaining stable and orderly conditions in the Government security market had been offset by the sale of Treasury bills from the System account.

The above direction was adopted so that the management of the System open market account could be continued as a part of the anti-inflationary program to the fullest extent possible consistent with the policy of supporting the Government bond market and maintaining stable and orderly conditions in that market.

It was the opinion of the Committee at this meeting that other steps that might be taken to carry out the program would include (1) a further increase in short-term rates with corresponding increases in the bill rate with a view to bringing about greater flexibility in the bill market and increasing the holdings of bills outside the Federal Reserve Banks, (2) a further increase in the discount rates at the Federal Reserve Banks to follow the increase in short-term rates, (3) the continued retirement of Government debt to the extent permitted by Treasury balances, (4) the continued timing of calls on war loan accounts to exert some drain on bank reserves, and (5) continued study of the situation for the purpose of determining what, if any, action should be taken further to increase member bank reserve requirements.

The limitation of 2 billion dollars contained in the first paragraph of the direction set forth above represented an increase of 500 million over the limitation in the direction issued at the meeting on May 20, 1948. The limitation was fixed at that amount for the reason that it appeared that over the next month or more a very substantial amount of securities would have to be purchased in carrying out the policy of supporting the long-term rate on Government bonds.

NOVEMBER 30, 1948

(A meeting of the Federal Open Market Committee was held on November 15, 1948, to consider monetary and credit and debt management problems but no policy actions were taken at that time.)

#### 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 2 billion dollars.

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Votes for this action: Messrs. McCabe, Clayton, Draper, Eccles, Evans, Gilbert, Leedy, Szymczak, Vardaman, Williams, Young, and Rounds (alternate for Mr. Sproul). Votes against this action: none.

When this meeting was held the situation had again changed considerably. Pressure on the long-term Government bond market, which had continued through the early part of November, had subsequently eased. The economy continued to operate at a high level but the outlook for total expenditures was obscure because increases were expected in Governmental expenditures while reductions might occur in consumer and business demands. Various alternative actions that might be taken by the Committee were considered, and it was agreed that the above direction, which was in the same form as the direction issued at the meeting on October 4, 1948, should be adopted to enable the System to continue to cope with conditions as they developed.