

THIRTY-SIXTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1949

The above direction was issued to enable the executive committee to carry out the new policy. The direction was in the same form as that issued at the meeting of the Committee on November 30, except for one change which made it clear that the policy was adopted in the light of changing economic conditions as well as the existing general credit situation.

MAY 3, 1949

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 of the Committee on March 1, 1949, 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 changing economic conditions and 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. Sproul, Vice Chairman; Clayton, Draper, Earhart, Eccles, Gidney, Leach, McLarin, Szymczak, and Vardaman.
Votes against this action: none.

At the time of this meeting economic developments had shown a sufficiently broad and consistent downward movement to justify the expectation of a continued modest recession for some months to come. Although the decline in employment, production, and prices from the high levels reached in 1948

had been relatively small, the outlook was for even further declines. In reviewing the entire matter at this meeting, at which consideration was also given to the recommendations to be made to the Treasury with respect to Treasury financing, it was felt that the downward readjustments that had taken place were desirable and in the interest of more stable economic conditions and that, with national economic policies operating to cushion such declines, the movement would not be more than a moderate one. It appeared, however, that the policies of the System should now be directed toward somewhat easier credit conditions to assist in keeping the movement from going too far.

As referred to elsewhere in this report, a number of actions in this direction had been taken by the Board of Governors before this meeting of the Committee was held. Effective early in May reserve requirements of member banks were reduced; Regulation W was amended effective March 7 and April 27 to reduce the maximum maturities and down payments required in connection with consumer instalment loans; and Regulations T and U were amended effective March 30 to reduce the margin requirements prescribed therein from 75 to 50 per cent.

The above direction was adopted by the Committee as a part of this program. It provided for an increase from 2 billion dollars to 3 billion dollars in the authority of the executive committee to increase or decrease the total amount of securities in the System account because it was felt that, in view of prospective market developments before another meeting of the full Committee, it would be desirable for the executive committee to have the increased authority.

JUNE 28, 1949

1. Authority to Effect Transactions in System Account.

The following direction to the executive committee which, except for one change, was in the same form as the direction issued at the meeting on May 3, 1949, 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 changing economic conditions and the general credit situation of the country, for the practical administration of the account, for the maintenance of 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. McCabe, Chairman; Sproul, Vice Chairman; Clayton, Draper, Earhart, Eccles, Evans, Gidney, Leach, McLarin, Szymczak, and Vardaman. Votes against this action: none.

By late June the decline in business activity had gone further than had been considered likely at the beginning of the year and there were indications that it would go somewhat further. On the date of this meeting it was clear that Congress would not extend the temporary authority of the Board of Governors to increase reserve requirements of member banks and that the lapse of this authority at the end of June would reduce reserve requirements of member banks by about 800 million dollars and, therefore, would have a substantial easing influence on the money market. It was also clear that Congress would not extend the temporary authority of the Board for the regulation of consumer instalment credit which would result in greater availability of credit in this field.

It was agreed at this meeting that the easing influence of the reduction of 800 million dollars in reserve requirements should be permitted to make itself felt in the market, and that open market operations should be so conducted, in the light of developments after the reduction in reserve requirements became effective on July 1, as to continue the System's policy of monetary ease. The direction set forth above was adopted for that purpose. The only change from the previous direction was in the reference to orderly conditions as distinguished from stable and orderly conditions in the Government security market.

This was a significant change in the direction and grew out of the suggestion that the declines in business activity that had taken place and the credit policy being currently followed by the Federal Reserve System afforded the Federal Open Market Committee an opportunity to adopt a more flexible policy, first with respect to the general business and credit situation, and second, with respect to support of the Government security market. Discussions at this meeting were in the light of further conferences that had been held by representatives of the Committee with the Secretary of the Treasury in which the view was expressed that the time had arrived when the Federal

Open Market Committee should begin to determine its policies on the basis of the general business and credit situation and orderly conditions in the Government security market, without attempting to maintain a relatively fixed pattern of prices and yields on United States Government securities. Under existing conditions, the revised policy contemplated increased availability of reserve funds and some further decline in rates, and in all conditions somewhat freer movements in prices and yields in the Government security market. The members of the Committee were favorable to such a change in existing policy. The statement issued to the press in connection with this change was as follows:

The Federal Open Market Committee, after consultation with the Treasury, announced today that with a view to increasing the supply of funds available in the market to meet the needs of commerce, business, and agriculture it will be the policy of the Committee to direct purchases, sales, and exchanges of Government securities by the Federal Reserve Banks with primary regard to the general business and credit situation. The policy of maintaining orderly conditions in the Government security market and the confidence of investors in Government bonds will be continued. Under present conditions the maintenance of a relatively fixed pattern of rates has the undesirable effect of absorbing reserves from the market at a time when the availability of credit should be increased.

AUGUST 5, 1949

I. 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 of the Committee on June 28, 1949, 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 changing economic conditions and the general credit situation of the country, for the practical administration of the account, for the maintenance of 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.