

THIRTY-SEVENTH

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1950

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**RECORD OF POLICY ACTIONS  
FEDERAL OPEN MARKET COMMITTEE**

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MARCH 1, 1950

(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, 1950—was held on February 28, 1950, 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 December 13, 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 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 billion dollars.

Votes for this action: Messrs. Sproul, Vice Chairman, Davis, Draper, Eccles, Erickson, Peyton, Szymczak, and Young. Votes against this action: none.

During most of the period since the previous meeting of the Committee there was a persistent tendency by holders of short-term securities, particularly banks, to sell such securities and acquire other assets, and, at the same time, there was a strong investor demand for long-term bonds. In view of the further improvement in the economic situation, the Federal Open Market Committee had continued to follow the policy adopted in November 1949 of mildly restricting the availability of bank reserves by purchasing short-term securities only at rising rates and by selling long-term bonds in response to active investor demands. The sales of long-term bonds largely absorbed additional reserves made available through seasonal monetary factors, as well as those provided by Federal Reserve purchases of short-term securities.

The new Treasury financing scheduled for refunding issues maturing March 15 with a 5-year 1½ per cent note, by reducing somewhat the large volume of short-term securities in the market and held by banks, was tending to lessen bank selling of such issues and thus aiding the Federal Open Market Committee in continuing a policy of permitting greater flexibility in interest rates in response to changes in the demands for credit.

It was expected that there would continue to be a strong demand by investors for long-term bonds, which might be met through an offering by the Treasury of a new issue of bonds to cover some of its prospective needs for new money. In the absence of such an offering, the Federal Open Market Committee would supply bonds from the System account in order to absorb available investment funds and discourage overexpansion financed through long-term credit. It was further felt that, in view of the very low level that had been reached in long-term yields, some rise in those yields would help to place Government securities with nonbank investors in the event of new financing by the Government, which it then appeared would be needed later in the year. Sales of bonds by the System would also help to absorb reserves that would be supplied by any System purchases of short-term securities that might be sold by banks to obtain funds for extending other types of credit.

It was the view of the Committee that absorption of savings through sales of bonds to nonbank investors and discouragement of bank sales of short-term securities to the Federal Reserve would help to moderate forces making

for undue monetary expansion and increase the likelihood of maintaining production and employment at high levels.

JUNE 13-14, 1950

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 March 1, 1950, 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 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 billion dollars. The direction in this paragraph will terminate on June 30, 1950, unless the authority of the Federal Reserve Banks to purchase securities directly from the Treasury is extended by the Congress.

Votes for this action: Messrs. McCabe, Chairman, Sproul, Vice Chairman, Davis, Draper, Eccles, Erickson, Evans, Peyton, Szymczak, and Young. Votes against this action: none.

The only change was the addition of a sentence at the end of the second paragraph of the direction to provide for the termination on June 30, 1950,

of the authorization for action covered by the paragraph in the event the authority to make direct advances to the Treasury was allowed by Congress to terminate on June 30. (This authority was subsequently extended until July 1, 1952, by an Act of Congress approved June 30, 1950.)

The intent of this direction and of actions expected to be taken under it was to continue the general line of previously adopted policies and to adapt them to the developing economic situation.

In the weeks immediately before this meeting, Treasury refunding of June 1 and July 1 maturities with offerings of 13-month notes at 1¼ per cent required substantial Federal Reserve purchases of the maturing issues in order to assure a satisfactory exchange. The Committee felt that the developing economic situation with strong demands for housing and durable goods, growing capital expenditures, expanding credit, and rising prices presented dangers of imbalance in the economy and called for a credit policy that would try to restrain a too-rapid increase. It was felt that as one means of carrying out this policy, after the Treasury's July 1 financing was completed, the System should revise its recent policy of purchasing short-term securities. It was believed that substantial changes in interest rates were unnecessary, as well as impracticable, in the prevailing situation, but that the System's policies should be directed toward restricting increases in bank reserves in a timely and flexible, though modest, manner. The Committee felt that an increase in Federal Reserve Bank discount rates might be considered as an appropriate part of this program, particularly as an indication of Federal Reserve views as to the need for restraint in the developing situation. It was also expected as a part of the program that, in the absence of a long-term Treasury offering or a change in the business and credit situation, Federal Reserve sales of long-term bonds in response to market demands would be continued.

AUGUST 18, 1950

1. Authority to Effect Transactions in System Account.

The following direction to the executive committee, which, except for the changes noted below, was in the same form as the direction issued at the meeting on June 13-14, 1950, 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