

THIRTY-SEVENTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1950

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