

THIRTY-EIGHTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR
THE YEAR

1951

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

JANUARY 31, 1951

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 November 27, 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 and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account; 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. McCabe, Chairman, Sproul, Vice Chairman, Eccles, Erickson, Evans, Norton, Peyton, Powell, Szymczak, Vardaman, Young, and Gilbert. Votes against this action: none.

At the meeting of the Federal Open Market Committee on August 18, 1950, the Committee and the Board of Governors announced a policy of using

all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market. Within the limits of this policy, it had been found necessary to give substantial support in the market for Government securities, particularly for maturing issues to aid Treasury refunding operations and also for long-term bonds which were being sold by institutional investors in large amounts. Endeavors to absorb bank reserves and to restrain credit expansion had been made through the sale of other securities from the System account, principally short-term issues, and a rise in yields on short-term securities had been permitted to occur in the market, but these operations also had to be moderated at the end of October. At its meeting on November 27, 1950, the Committee took the position that, since there had been no general abatement of inflationary pressures, and in the light of prospective developments, available measures of restraint on credit should be continued and reinforced wherever possible to the extent consistent with the maintenance of orderly conditions in the Government securities market. However, holders of Government securities continued to offer them in the market in large volume and, in order to prevent declines in their prices, Federal Reserve purchases during December 1950 and January 1951 were substantial, thus adding to bank reserves and providing funds for continued expansion in commercial bank loans, which, by the end of January 1951, had risen by approximately 7 billion dollars since August of 1950. In January, some of the additional reserves were absorbed by increases in reserve requirements.

The approval of the above direction was for the purpose of continuing in effect, for the reasons previously stated, the existing policy of restraint on further expansion of bank credit wherever possible consistent with the policy of maintaining orderly conditions in the Government securities market. In taking this action, however, it was realized that in maintaining orderly conditions in the Government securities market it probably would be necessary to purchase substantial additional amounts of Government securities and it was agreed that another meeting should be held shortly for the purpose of considering what the over-all policy of the Committee should be.

FEBRUARY 6-8, 1951

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 January 31, 1951, 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 and prospective economic conditions and the general credit situation of the country, with a view to exercising restraint upon inflationary developments, to maintaining orderly conditions in the Government security market, to relating the supply of funds in the market to the needs of commerce and business, and to the practical administration of the account, 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, Chairman, Sproul, Vice Chairman, Eccles, Erickson, Evans, Norton, Peyton, Powell, Szymczak, Young, and Gilbert. Votes against this action: none.

In the period following the meeting on January 31, 1951, the Federal Reserve continued to purchase Government securities, particularly long-term restricted bonds which private investors were offering in the market in large volume, and such purchases made additional reserves available to banks upon the basis of which there could be multiple expansion of bank credit. At this meeting of the Committee consideration was given to the whole problem of System credit and Treasury debt management policy and to the action that might be taken by the System and the Treasury to develop a coordinated program which, while providing for the maintenance of orderly market conditions, would remove the necessity for the System to purchase substantial amounts of Government securities which if continued would add to the already excessive money supply and might thereby seriously weaken the financial stability of the country.

It was agreed that, pending further discussion with the Treasury of steps that might be taken to develop such a coordinated program of credit policy and debt management to assist in the fight against inflation, no change should be made in the existing general direction of the Committee of restraint of