THIRTY-SEVENTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE

FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR

THE YEAR

1950
for the temporary accommodation of the Treasury shall not be
increased or decreased by more than 4 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
in the account at any one time shall not exceed 1 billion dollars.

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

The purpose of this meeting was to consider further the timing of actions
to be taken under the general policies agreed upon at the meeting of September
28, 1950. Appraisal of economic developments showed that credit expansion had continued at a rapid rate and that although there were some signs
or prospects of moderate abatement of inflationary pressures which might
be detected in certain fields, the underlying forces in the economy were still
strongly inflationary and would be accelerated by increasing Government
expenditures as the rearmament program began to bring its huge demands
upon the economy, unless stern fiscal policies such as had been advocated and
further credit restraints were adopted.

In the light of these prospects, in accordance with the need for restrictive
credit measures to support the Government’s anti-inflation program, and in
view of the statutory responsibilities of the Federal Open Market Committee,
it was decided to proceed with policies decided upon. Accordingly, the
direction quoted above was identical with that issued on September 28, 1950.

October 30, 1950

1. Extension of Policy for Restraining Inflationary Credit Expansion.

At this meeting, the Federal Open Market Committee gave consideration
to further extension of the policy determined at previous meetings for
restraining inflationary credit expansion. It was agreed that continued flexi-
bility in the short-term money market was essential to carrying out effective
credit policy, but that operations under this policy must be carried out in
a manner that would not induce holders of long-term bonds to sell securities
and thus necessitate Federal Reserve purchases to maintain an orderly market,
which would interfere with the System policy of credit restraint, the main
purpose of which was to avoid putting funds into the market. For this reason,
it was felt, yields on short-term issues should not be permitted to rise above
a point which, under existing conditions, might be considered as endangering
the 2½ per cent rate on outstanding issues of long-term restricted bonds.
At this meeting it appeared from current market developments that this
point might have been reached, at least temporarily. Accordingly, it was
agreed that for the present, pursuant to the policy adopted at the meeting
of the Committee on October 11, 1950, the rate on short-term issues should
not be permitted to rise further, but that if further inflationary or market
forces should develop which would make it necessary to reconsider this
decision, another meeting of the Committee would be held. No change was
made in the form or limitations in the authorization to effect transactions in
the System account which was approved on October 11, 1950.

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