

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 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 flexibility 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.

NOVEMBER 27, 1950

1. Authority to Effect Transactions in System Account.

Consideration was given at this meeting to continuation of the general line of policy previously adopted, and the Committee approved the following direction to the executive committee, which was in the same form as the direction issued at the meeting on October 11, 1950:

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 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 billion dollars.

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

Continuation of the policy of credit restraint through open market operations, to the extent consistent with the maintenance of orderly conditions in the Government securities market, was decided upon by the Committee in view of the indications that there had been no general abatement of inflationary pressures. Evidences of these pressures were seen in the following: production was at or near capacity in most lines; consumer demands were continuing at a high level; defense expenditures had begun to increase; substantial expansion in business loans had continued, reflecting the building up of inventories by dealers and processors at rising prices; the general price rise had resumed, with increases in nearly all groups of commodities, after a slight decline in prices of farm products and foods during October; wage rates were gradually increasing in a tight labor market; and the upward trend in stock prices and land values, farm and urban, continued.

It was the Committee's view that in the light of prospective developments available measures of restraint on credit should be continued and reinforced wherever possible.