

THIRTY-FOURTH

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1947

JUNE 5, 1947

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Clayton; Mr. Davis; Mr. Draper; Mr. Evans; Mr. Gidney; Mr. Peyton; Mr. Szymczak; Mr. Whittemore.

**1. Increase in Authority to Effect Transactions in System Account.**

Upon motion duly made and seconded, and by unanimous vote:

The action of the members of the Federal Open Market Committee on April 2, 1947, pursuant to a recommendation of the executive committee, increasing from 1.5 billion to 2 billion dollars the limitation on the authority of the executive committee with respect to increasing or decreasing the total amount of securities in the System account, contained in the first paragraph of the direction issued at the meeting on March 1, 1947, was approved, ratified, and confirmed.

Under the direction issued at the last meeting of the Federal Open Market Committee, the total amount of securities held in the System account had been reduced on April 1 by more than 1.1 billion dollars. At a meeting of the executive committee of the Federal Open Market Committee on the latter date it appeared that further contemplated retirement of the Government debt might result in further substantial reductions in System account holdings of securities. The executive committee recommended, therefore, and the members of the Committee approved, the increase of 500 million dollars referred to above.

**2. Tender of Maturing Treasury Bills for New Issues.**

Upon motion duly made and seconded, and by unanimous vote:

The actions of the members of the Federal Open Market Committee on April 24, 1947, (a) authorizing each Federal Reserve Bank to place weekly tenders for new Treasury bills in an amount not exceeding the amount of weekly maturities in the option account and authorizing the Federal Reserve Bank of New York to place tenders for new Treasury bills in an amount not exceeding the amount of weekly maturities in the System open market account, and (b) amending the direction issued by the Committee on March 1, 1945, with respect to the purchase of Treasury bills to read as follows, were approved, ratified, and confirmed.

"Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills that may be offered to such Banks on a discount basis at the rate of  $\frac{3}{8}$  per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller on or before the last business day preceding the closing day on which the Treasury will accept tenders of the bills for new Treasury bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all transactions in Treasury bills are to be made to the Manager of the System Open Market Account."

Following the meeting of the Federal Open Market Committee on March 1, 1947, there were further discussions with representatives of the Treasury of a

program looking toward the elimination of certain wartime financing methods and controls which were considered to be no longer desirable or necessary. These discussions included (1) the establishment by the Board of Governors of an interest charge on Federal Reserve notes, which would have the effect of transferring surplus earnings of the Federal Reserve Banks to the Treasury, (2) permission to bidders for future issues of Treasury bills to make payment in cash or by the surrender of maturing bills, and (3) the elimination of the posted  $\frac{3}{8}$  per cent buying rate and repurchase option on Treasury bills. On April 24 the first two of these steps were announced and put into effect.

The above stated actions on April 24 by the members of the Federal Open Market Committee were for the purpose of adjusting open market procedure to the changed arrangement with respect to Treasury bills. The direction of March 1, 1945, provided that the original seller of the bills could repurchase bills at his request at any time before their maturity. The revised direction set forth above required that the request to repurchase be made on or before the last business day preceding the closing day on which the Treasury would accept tenders of bills for new Treasury bills. This change, however, applied only to bills issued on or after April 25, 1947.

On May 5, 1947, the members of the Federal Open Market Committee approved a procedure which provided for the transfer each week of maturing bills held by the individual Reserve Banks to the System account and for a single tender of all maturing bills in payment for new bills to be held in the System account. This action was for the purpose of improving and simplifying the handling of tenders of maturing bills for new bills and involved no question of open market policy.

**3. Authority to Effect Transactions in System Account.**

Upon motion duly made and seconded, and by unanimous vote, the following direction to the executive committee was approved:

The executive committee be 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 practical administration of the account or for the purpose of maintaining an orderly market in Treasury securities and a general level of prices and yields of Government securities which will support the Treasury issuing rates of  $\frac{3}{8}$  per cent for one-year certificates and  $2\frac{1}{2}$  per cent for 27-year bonds restricted as to ownership; provided that the aggregate amount of securities held in the account at the close of this date [other than (1) maturing bills transferred to the System account from the option accounts of the Federal Reserve Banks pursuant to the direction issued by the Federal Open Market Committee on May 5, 1947, bills purchased outright in the market on a discount basis at the rate of  $\frac{3}{8}$  per cent per annum, bills redeemed or exchanged at maturity, and bills taken in exchange for maturing bills, and (2) 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.

That the executive committee be further directed, until otherwise directed by the Federal Open Market Committee, to arrange for the pur-

chase 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 amount of such certificates held in the account at any one time shall not exceed 1.5 billion dollars.

Following the actions announced on April 24, 1947, there were further discussions with representatives of the Treasury of the proposed elimination of the  $\frac{3}{8}$  per cent posted rate and repurchase option on Treasury bills, but no decision as to the timing of this action was reached. There were also discussions of questions relating to Treasury financing, including an increase in the rate on Treasury certificates, and the issuance by the Treasury of a long-term Series G type security. The retirement of Government debt, for anti-inflationary purposes, had been continued and while the steps that had been taken by the System and the Treasury apparently had stopped temporarily the decline in yields on long-term securities resulting from "playing the pattern of rates," it was expected by the Committee that the long-term rate would continue to be under pressure. In that event, the Committee would be faced with the alternative of allowing the long-term rate to decline further or of permitting the short-term rate to rise to a point where there would be no incentive for banks to continue to "play the pattern of rates" with the resulting increase in member bank reserves.

The Committee therefore decided that, until a decision was reached on action to discontinue the posted rate on Treasury bills and to increase the short-term rate, no change should be made in existing open market policies, and that the direction issued by the Federal Open Market Committee on March 1, 1947, and amended on April 2, 1947, with respect to the purchase of Treasury bills, should be changed only to the extent necessary to bring the direction into conformity with the procedure approved on May 5, 1947, for transferring maturing bills held by the Federal Reserve Banks to the System account and the exchange of bills in the System account for new bills.

OCTOBER 6-7, 1947

Members present: Mr. Eccles, Chairman; Mr. Sproul, Vice Chairman; Mr. Clayton; Mr. Davis; Mr. Draper; Mr. Evans; Mr. Gidney; Mr. Peyton; Mr. Szymczak; Mr. Vardaman; Mr. Whittemore.

#### 1. Elimination of Posted Rate on Treasury Bills.

Upon motion duly made and seconded, and by unanimous vote:

The action of the members of the Federal Open Market Committee on July 2, 1947, discontinuing the posted rate on Treasury bills issued on or after July 10, 1947, in accordance with the following amended direction to the Federal Reserve Banks, was approved, ratified, and confirmed.

"Until otherwise directed by the Federal Open Market Committee, the 12 Federal Reserve Banks are directed to purchase all Treasury bills issued prior to July 10, 1947, that may be offered to such Banks on a discount basis at the rate of  $\frac{3}{8}$  per cent per annum, any such purchases to be upon the condition that the Federal Reserve Bank, upon the request of the seller on or before the last business day preceding the closing day on

which the Treasury will accept tenders of the bills for new Treasury bills, will sell to him Treasury bills of like amount and maturity at the same rate of discount. All bills purchased under this direction are to be held by the purchasing Federal Reserve Bank in its own account and prompt reports of all transactions in Treasury bills are to be made to the Manager of the System Open Market Account."

Following the meeting of the Federal Open Market Committee on June 5, 1947, there were further discussions with the Treasury of the proposed discontinuance of the posted  $\frac{3}{8}$  per cent rate on Treasury bills and agreement was reached that the rate should be terminated as to all bills issued on or after July 10, 1947. The above direction was issued to accomplish that result. The reasons for the action are set forth in the following statement released to the press for publication in the morning papers of July 3, 1947:

"The Federal Open Market Committee of the Federal Reserve System has directed the Federal Reserve Banks to terminate the policy of buying all Treasury bills offered to them at a fixed rate of  $\frac{3}{8}$  per cent per annum and to terminate the repurchase option privilege on Treasury bills. The new policy will apply to bills issued on or after July 10, 1947. Existing policy will continue to apply to bills issued prior to that date.

"The above action was taken by the Committee after consultation with the Secretary of the Treasury.

"The so-called posted rate on Treasury bills was a wartime measure adopted in 1942 to facilitate war financing and to stabilize the market for Government securities. It was designed primarily to encourage banks to make fuller use of their excess reserves and thus bring about a wider distribution of Treasury bills. Under current peacetime conditions these arrangements no longer serve their original purpose and tend to distort conditions in the money market and the securities market. Certificates of indebtedness, which bear a higher rate than Treasury bills, have largely replaced bills in the market, not only as a medium for the investment of short-term funds but also as a means by which banks adjust their reserve positions.

"Increased amounts of Treasury bills have been sold to the Federal Reserve Banks by the market, and bills have gradually ceased to be a market instrument. Currently, only about 1.5 billion dollars of the nearly 16 billion total of Treasury bills outstanding are held outside the Federal Reserve Banks. The Treasury bill rate has thus been eliminated as a factor in the money market. The need for large-scale borrowing of new money by the Treasury ceased with the completion of the Victory Loan Drive and since that time the public debt has been reduced substantially. Consequently there is no reason for continuing this wartime mechanism. On the contrary, its elimination will serve a useful purpose in restoring the bill as a market instrument and giving added flexibility to the Treasury's debt management program.

"Under the new policy the Treasury bill rate will be expected to find its level in the market in proper relation to the yields on certificates of indebtedness. The Federal Reserve System will continue to purchase and hold Treasury bills as well as other Government securities in amounts deemed necessary in the maintenance of an orderly Government security market and the discharge of the System's responsibility with regard to the general credit situation of the country.