THIRTY-FOURTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1947

growth, bank loans were expanding rapidly and the demand for capital funds was strong, and there were further substantial gold imports. Because of the policy of supporting the Government securities market, which the Committee felt was a sound policy and should be continued, banks had ready access to additional reserves by the sale of securities to the System account. There was no prospect of the accumulation of substantial Treasury cash balances that could be used for the retirement of Government debt at this time, and therefore, the restraining influence of such accumulation could not be imposed. It was also recognized that the strongest forces working toward inflation lay outside the field of monetary policy and debt management and that measures available to the System and the Treasury could have only limited effectiveness.

It was the view of the Committee that, since further credit expansion would add to the inflationary pressures, the situation was such as to justify the Treasury and the Federal Reserve System taking such actions as were available to them to eliminate or moderate excessive credit expansion. While continuing the existing policy of maintaining orderly conditions in the Government security market, it was agreed that with a view to preventing to the extent possible further expansion of bank credit, there should be action by the appropriate authorities to carry out an anti-inflationary program which would contemplate (1) continued use of Treasury balances when available to retire Government debt, particularly bills and certificates held by the Federal Reserve Banks, (2) a further increase in the short-term rate on Government securities to 1⅛ per cent, (3) an increase in the discount rates at the Federal Reserve Banks in keeping with the increase in the rate on short-term Government securities, (4) an increase in reserve requirements of member banks in central reserve cities, (5) a statement by the Board of Governors emphasizing, in connection with the termination of Regulation W, the dangers of more liberal instalment credit terms and a further growth of outstanding consumer credit, (6) a joint statement by the Federal and State bank supervisory agencies which would point out the dangers of further overall expansion of bank credit through the medium of bank loans, and (7) a change in the policy with respect to the refunding of maturing savings bonds to encourage the reinvestment of proceeds of maturing bonds in new issues of savings bonds.

The language in the first paragraph of the direction issued by the Committee, setting forth the considerations governing transactions for the System account, was changed from the direction previously in effect for the purpose of relating it more closely to the current policies of the Committee in the light of existing monetary and credit conditions.

December 9, 1947

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

1. 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 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 the general credit situation of the country, for the practical administration of the account, for the maintenance of stable and orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market more closely 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 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 1.5 billion dollars.

The above direction, which was in the same form as the direction issued at the meeting on October 7, 1947, was adopted for substantially the same reasons as the earlier direction. Inflationary forces had continued strong, substantial amounts of long-term Government securities were being sold to the System to meet the demands for funds, and it was felt that the existing open market policy should be continued as a means, coupled with other actions by the System and with debt-management policies of the Treasury, of keeping pressure on the market and thereby restraining the expansion of bank credit.

It was understood that, in carrying out the direction, the executive committee would continue the existing prices at which Government securities were being supported until after the Treasury January refunding had been completed, at which time prices of bonds should be permitted to decline rapidly, if the market did not support itself, to a level not more than 100½ and not less than par on the longest restricted 2½ per cent issue and to not less than par on 1⅛ per cent one-year certificates. It was also understood that if, before the completion of the January refunding, market selling should increase substantially, the executive committee would be authorized to permit prices to decline to the level stated above as rapidly as was consistent with the maintenance of orderly market conditions.

The limitation contained in the first paragraph of the direction was increased from 2 billion to 3 billion dollars because it was felt that it would be desirable for the executive committee to have the enlarged authority, in order to be in position to meet adequately the conditions that were likely to prevail in connection with the Treasury's refunding operations and tax collections before another meeting of the Committee.