

THIRTY-SIXTH

# ANNUAL REPORT

*of the*

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM



COVERING OPERATIONS FOR  
THE YEAR

1949

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

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MARCH 1, 1949

(A meeting of the Federal Open Market Committee—the last before the members of the Committee took office who were elected as representatives of the Federal Reserve Banks for a term of one year beginning March 1, 1949—was held on February 28, 1949, for the purpose of ratifying actions which had been taken under existing policies and of discussing developments in the monetary and credit situation since the last meeting of the Committee. No policy actions were taken at that meeting.)

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

The following direction to the executive committee which, except for one change, was in the same form as the direction issued at the meeting on November 30, 1948, 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 changing economic conditions and 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 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 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 1.5 billion dollars.

Votes for this action: Messrs. McCabe, Chairman; Sproul, Vice Chairman; Clayton, Draper, Earhart, Eccles, Gidney, Leach, McLarin, Szymczak, and Vardaman. Votes against this action: none.

Throughout the entire year 1948 the Federal Open Market Committee followed a policy of limiting the availability of bank reserves, as a means of restraining the expansion of bank credit in an inflationary situation, and at the same time continued its policy of maintaining stable and orderly conditions in the Government securities market. At the time of the meeting of the Committee on November 30, 1948, the downward pressure on prices in the long-term Government security market had eased and, although the economy continued to operate at a high level, the outlook for total expenditures was obscure because increases were expected in Government expenditures while reductions might occur in consumer and business demands.

In the interim following the November meeting economic developments had shown a further and more general tendency toward relaxation of inflationary pressures. The underlying situation indicated the probability of either a period of stability in demand and production or a moderate downturn accompanied by downward movements in prices and production. While a period of healthy readjustment appeared to be the more likely probability, there were a number of important uncertainties in the situation which made it difficult to forecast which way the economy would turn. A more detailed discussion of the outlook during this period is contained in the Annual Report of the Board of Governors for the year 1949 of which this record is a part.

There had also been further discussions with representatives of the Treasury, during the three-month period since the previous meeting, relating to short-term rates of interest, the retirement of maturing Government debt, steps that might be taken to encourage investment and reinvestment in savings bonds, and other matters involved in the determination of open market and debt management policy.

When this meeting was held the Committee felt that, because of the uncertainties in the situation, it should replace the existing policy of exercising restraint on credit expansion with a policy which would relax such restraint without following an aggressive easy money policy. This decision was reached with the understanding that consideration was being given by the Board of Governors and the Federal Reserve Banks to what should be done through the medium of discount rates, consumer credit regulation, margin requirements, and changes in reserve requirements so that the entire credit policy of the System would be consistent and free to stand or to move in either direction depending on developments that might occur.

The above direction was issued to enable the executive committee to carry out the new policy. The direction was in the same form as that issued at the meeting of the Committee on November 30, except for one change which made it clear that the policy was adopted in the light of changing economic conditions as well as the existing general credit situation.

MAY 3, 1949

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 of the Committee on March 1, 1949, 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 changing economic conditions and 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 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.

Votes for this action: Messrs. Sproul, Vice Chairman; Clayton, Draper, Earhart, Eccles, Gidney, Leach, McLarin, Szymczak, and Vardaman.  
Votes against this action: none.

At the time of this meeting economic developments had shown a sufficiently broad and consistent downward movement to justify the expectation of a continued modest recession for some months to come. Although the decline in employment, production, and prices from the high levels reached in 1948

had been relatively small, the outlook was for even further declines. In reviewing the entire matter at this meeting, at which consideration was also given to the recommendations to be made to the Treasury with respect to Treasury financing, it was felt that the downward readjustments that had taken place were desirable and in the interest of more stable economic conditions and that, with national economic policies operating to cushion such declines, the movement would not be more than a moderate one. It appeared, however, that the policies of the System should now be directed toward somewhat easier credit conditions to assist in keeping the movement from going too far.

As referred to elsewhere in this report, a number of actions in this direction had been taken by the Board of Governors before this meeting of the Committee was held. Effective early in May reserve requirements of member banks were reduced; Regulation W was amended effective March 7 and April 27 to reduce the maximum maturities and down payments required in connection with consumer instalment loans; and Regulations T and U were amended effective March 30 to reduce the margin requirements prescribed therein from 75 to 50 per cent.

The above direction was adopted by the Committee as a part of this program. It provided for an increase from 2 billion dollars to 3 billion dollars in the authority of the executive committee to increase or decrease the total amount of securities in the System account because it was felt that, in view of prospective market developments before another meeting of the full Committee, it would be desirable for the executive committee to have the increased authority.

JUNE 28, 1949

1. Authority to Effect Transactions in System Account.

The following direction to the executive committee which, except for one change, was in the same form as the direction issued at the meeting on May 3, 1949, 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 changing economic conditions and the general credit situation of the country, for the practical administration of the account, for the maintenance of orderly conditions in the Government security market, and for the purpose of relating the supply of funds in the market 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