THIRTY-NINTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR THE YEAR

1952

for approximately a year during which there had been an important measure of credit restraint. While there were some factors that suggested the possibility of downward adjustments in prices and decreases in some phases of business activity, there were also in prospect factors that would tend to generate inflationary pressures, particularly the expanding defense program and the continued high level of capital expenditures by business. Although it appeared that there would be a substantial Federal cash deficit for the entire calendar year 1952, it was clear that the impact in the market of most of the deficit would not be felt until the second half of the year. In the meantime, individual savings were continuing at a high rate and promised to provide funds to meet at least part of the credit demands from Government and private sources. The objective of credit policy was to maintain conditions that would be conducive to the meeting of credit demands as much as possible through the use of available savings with a minimum of new money creation through bank credit.

The direction to the executive committee quoted above was adopted, therefore, with a view to continuing the policy which had been pursued for several months. This was in accord with the discussions of the Committee at its meeting on the previous day. Continuance of this policy was based on the Committee's judgment that no major disturbances in the market in either direction were to be expected in the near future, that while additional restrictions on credit seemed unnecessary at the time, relaxation of restraint was not called for, and that measures adopted should continue to be such that they would act to restrain any resumption of inflationary pressures.

The limitation in the second paragraph of the direction was increased from 1 billion to 2 billion dollars in view of the prospect that the Treasury might wish to sell short-term securities direct to the Federal Reserve Banks in an amount approximating $1\frac{1}{4}$ billion in order to smooth the effects of income tax collections over the March tax payment period.

June 19, 1952

1. Authority to Effect Transactions in System Account.

The direction to the executive committee set forth below, which was in the same form as the direction issued at the meeting on March 1, 1952, was approved with the understanding that, if the authority contained in Section 14(b) of the Federal Reserve Act to purchase securities directly from the Treasury were not extended by Congress beyond June 30, 1952, the authority given in the second paragraph of the direction would terminate on that date. On June 23, 1952, the President signed Public Law No. 405, continuing such authority until June 30, 1954.

> 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 2 billion dollars.
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> 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 2 billion dollars.

> Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Bryan, Earhart, Evans, Leach, Mills, Powell, Robertson, Szymczak, Vardaman, and Young. Votes against this action: none.

At the time of this meeting, economic activity was continuing at a high level notwithstanding the steel strike; the situation was one of approximate balance with inflationary pressures potential rather than active. Bank loans had shown less than the usual seasonal contraction in recent months and total credit had expanded more than had been anticipated, but wholesale prices had not changed much although retail prices had risen somewhat. The System's policy of "neutrality" had become increasingly one of restraint as credit demands had expanded. Some relief had been given by putting funds into the market during temporary periods of stringency through purchases of short-term securities and through purchases from dealers under repurchase agreements. However, a major part of the additional reserve funds needed by the market to meet the combined demands of a rise in currency in circulation and an increase in required reserves was obtained through borrowing by member banks from the Federal Reserve Banks, as was indicated by the fact that member bank borrowings at the Federal Reserve Banks during May and the first half of June averaged well above a half billion dollars.

The degree of tightness in the money market, together with the continuing high rate of private capital expenditures, indicated that, to meet seasonal and other essential credit demands later in the year, the System might find it desirable to make additional reserves available despite further large individual savings and accumulations of liquid funds and the use of these funds to meet current credit demands. Because of the potential inflationary situation, however, particularly the growing Federal cash deficit, the Committee felt that there should continue to be a minimum of direct purchases by the System and that the increased reserves needed by the market should be supplied mainly through member bank borrowings and use of repurchase agreements with dealers. The tighter money market was being reflected in a rising level of interest rates and suggested that, if credit demands should become excessive, an increase in the discount rate might be appropriate.

Under the circumstances, the Committee wished to be in a position to restrain excessive expansion in bank credit during the latter part of the year and at the same time to be free to moderate undue strain in the market. Thus, it was concluded that the general policy of limiting the availability of bank reserves that had been pursued by the System since October of 1951 was still appropriate and that that policy provided adequate flexibility for dealing with market influences in the absence of extremes of pressure in either direction. The above direction was therefore adopted in the same form and with the same limitations as the one adopted at the preceding meeting of the Committee, since it was felt that no change in existing objectives of credit policy was needed.

2. Amendment of Section 8 of Federal Open Market Regulation.

The Committee approved at this meeting an amendment to Section 8 of the Regulation of the Federal Open Market Committee with regard to the establishment of rates governing the purchase in the open market by Federal Reserve Banks of bankers' acceptances and bills of exchange of the kinds made eligible for purchase under the provisions of Regulation B of the Board of Governors of the Federal Reserve System. Prior to this action, the regulation had provided that the "rates of discount" in connection with such transactions should be established in accordance with the provisions of Section 14 (d) of the Federal Reserve Act, which meant that the rates were established by the Federal Reserve Banks subject to review and determination by the Board of Governors. Under the amendment adopted at this meeting, the reference to Section 14 (d) of the Federal Reserve Act was omitted. As a result, rates on transactions in bankers' acceptances and bills of exchange were brought more specifically under the direction of the Committee. The action contemplated that the Federal Open Market Committee from time to time would fix a minimum buying rate for bankers' acceptances and that the effective buying rates would be specified by the manager of the System open market account in the light of market conditions and developments and in accordance with any directives or limitations prescribed by the Federal Open Market Committee or the executive committee for the purpose of carrying out the policies of the Federal Open Market Committee.

Votes for this action: Messrs. Martin, Chairman, Sproul, Vice Chairman, Bryan, Earhart, Evans, Leach, Mills, Powell, Robertson, Szymczak, Vardaman, and Young. Votes against this action: none.

It was the view of the Committee that since any transactions in acceptances affect the availability of reserves for banks without the necessity of showing borrowings, they should be administered as open market operations and not as advances to member banks (except when they were made specifically as a rediscount for or an advance to a member bank and were treated by the bank as borrowing). Also, there had recently been some indication that the importance of the acceptance market might be increasing and, with the resumption of periods of seasonal tightness in the money market and some reduction in the liquidity position of banks, it seemed probable that the banks might find it advantageous to sell acceptances in order to obtain reserve funds. Thus, the Federal Reserve might be called upon to operate somewhat more actively in this market. This would be especially true if convertibility in the foreign exchanges were re-established and the way opened for the use of dollar acceptances to aid in financing world trade.

SEPTEMBER 25, 1952

1. Authority to Effect Transactions in System Account.

The Committee adopted the following direction to the executive committee:

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 System account (including commitments for the purchase or sale of securities for 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 direct from the Treasury for the account of the Federal Reserve Bank