THIRTY-NINTH

ANNUAL REPORT

of the

BOARD OF GOVERNORS OF THE

FEDERAL RESERVE SYSTEM

COVERING OPERATIONS FOR
THE YEAR

1952

of the Federal Open Market Committee, but in no event should the effective rate be below whichever was the lower of (1) the discount rate of the purchasing Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of 3-month Treasury bills.

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

The change in procedure for setting the rate was made principally because the issuing rate on Treasury bills had been higher than the discount rate during the past few weeks, and, under the previous condition, this situation would have required an increase in the rate on repurchase agreements. It was believed that this would not be an appropriate arrangement in certain types of credit situations such as that currently existing, particularly in view of the imminent Treasury refunding operation. It was therefore considered desirable to change the procedure so as to avoid the necessity of raising the repurchase rate above the discount rate whenever the issuing rate on Treasury bills moved higher than the discount rate.

December 8, 1952

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 on September 25, 1952, 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 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.
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> 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 of New York (which Bank shall have discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) 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 at any one time by the Federal Reserve Banks shall not exceed in the aggregate 2 billion dollars.

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

During the autumn months, economic activity and employment had advanced to higher levels than in the spring of 1952 but commodity prices had generally not advanced. Total credit demand had been at record peacetime levels reflecting in particular Federal deficit financing during the second half of 1952 and a more than seasonal increase in private credit demands. Reserve Bank credit other than "float" had risen about 1¼ billion dollars in the September-November period, considerably more than had been anticipated at the time of the September 25 meeting of the Committee. Only about a third of this increase had been supplied by Federal Reserve purchases of securities, and member bank borrowings had risen to over 1½ billion dollars.

The accelerated expansion of bank credit in excess of moderate seasonal demands during the autumn months was a matter of concern in view of the economy's intensive use of its physical resources and the large volume of credit already outstanding. At the same time, there was evidence that the peak of the defense program in terms of requirements for materials and manpower was close at hand and that the rise in public expenditures in the next six months would be much less than had been expected earlier. The economic outlook was by no means clear, however, and it appeared that credit and monetary policy would need to be kept alert to realignments in underlying forces that might affect long-term growth and stability so that such policies could be adjusted promptly and effectively to changing conditions as they developed.

It was the view of the Committee that the general outlook was for a high level of income and production over the next few months with no immediate evidence of price inflation. That view suggested that the Committee should remain on the alert but did not call for action to change the existing policy of modest restraint in furnishing any additional reserves, a policy which had been consistent with a stable price level and a high level of economic activity. Thus, the Committee renewed the direction set forth above in the same form as the direction issued to the executive committee at the meeting on September 25, 1952.