

CONFIDENTIAL (FR)

January 20, 1967.

TO: Chairman Martin SUBJECT: Criticism of Manager Action
FROM: Robert C. Holland  by FOMC Members

Action taken by the Manager on Tuesday gave rise to a good deal of criticism by Governor Maisel and to a lesser degree by Governors Robertson and Brimmer and President Hickman, all of whom attended all or part of Tuesday's and Wednesday's calls.

Without going into too many details, these Committee members thought the Manager's action of engaging in \$270 million 2-day matched sales-purchase agreements represented too much fiddling with day-to-day reserve supplies just to avoid temporary money market ease and a positive free reserve figure. In addition, Governor Maisel thought the Manager exceeded his authority in using matched-sale-purchase agreements, which were authorized to keep markets taut during a tight money policy, to snup up excessive ease during an easing monetary policy.

Nobody else involved agrees with Governor Maisel's criticism; the rest all feel Alan had the practical authority to operate as he did. Whether the operational judgment to absorb reserves Tuesday was right is perhaps a moot question, although I personally agree with Alan's view that another boost to easier money expectations right now might have created enough trouble for the future, particularly the forthcoming Treasury financing, so that it was wise to soak up the reserve excess. But that action looks unneeded with hindsight, since a big and unexpected reserve demand from the West Coast Wednesday so tightened the market that the Trading Desk had to put reserves back in with repurchase agreements.

Alan says he'd do the same thing over again, if his knowledge was the same; but he's embarrassed by the way events turned around Wednesday. I have told him to regard it as one of those adverse turns of events that are bound to happen once in a while, that all he can do is use his best judgment each day, and that I was sure you'd feel the same way.

The objecting Committee members may be more or less mollified after our several discussions, but they might bring it up at the next FOMC meeting and so I wanted you to be forewarned. If you'd like any fuller information on this, just let me know.