

FOMC 12/13/55  
AS

First, I would like to say that I think it is desirable that there be further study and discussion of the relation between credit policy and debt management, not on the narrow basis of the recent Treasury financing and our purchase of when-issued securities in connection with that financing, but taking account of the whole area of this relationship. This is a matter which has had some discussion in the Federal Open Market Committee, and which it was understood would be the subject of further study by the members. In pursuance of this objective, the Federal Reserve Bank of New York has recently prepared and distributed one memorandum on the subject and I would hope others would be moved to consider it further so that we may develop a basis for conversations with the Treasury on the broadest possible grounds.

So far as our recent purchase of when-issued securities is concerned, I have detected in some of the comments which have been made a seeming reversion to the idea that the directives which the Committee has adopted from time to time are a form of Mosaic law, rather than an experiment, as they were described by the Chairman at the hearings of the Flanders subcommittee of the Joint Committee on the Economic Report. But by the terms of Committee action they are only valid until superseded by other action of the Committee, which was done in this case under circumstances which recommended such action to a majority of the Committee. I do not think, myself, that this will mislead the market. One of my concerns has been that the longer we went without deviation from the general principle adopted by the Committee, the more likely it would be that when we did have to deviate it would be taken as a sign that a situation had developed which was more dangerous and critical than actually was the case, and that this would mislead the market.

What has happened, as I see it, is that the principle adopted by the Committee, until superseded, was put to a real test when question arose as to the success of an appropriately priced Treasury refunding, plus cash financing, at a time when a restrictive credit policy was being followed. It was decided that it would be consistent with our primary responsibility for credit policy to take account of our secondary responsibility for coordination of that policy with debt management, in so far as possible. This is not at all a commitment or precedent for "bailing out" the Treasury every time it comes to the market and on whatever terms. I continue to hold the view, of course, that under conditions of credit restriction when the Treasury has to come to market for large refundings, and when it is also faced with the necessity of some cash borrowing, it is unlikely that the market will always be able to make the massive re-adjustments which are necessary within the short period of the Treasury's offering; some form of underwriting of part of the transaction is likely to be necessary.

On the question of whether a statement should be issued about our recent purchase of when-issued securities, I am of two minds. Fundamentally, I am of the opinion that we must allow our actions to speak for themselves, particularly in view of the difficulty of phrasing a brief official statement which will adequately represent the views of all members of the Committee, each one of whom may have arrived at a decision by a different route, and because of the likelihood of misinterpretation of such statements no matter how carefully they may be worded. I have noted, however, that what we do here often seems to reach the press and the Government Bond services by one route or another, and I think that the pressure for information concerning these purchases may be very great. In the circumstances, I raise the question as to whether it would not be

better to agree on an official explanation to be added to our public condition statements this week, to which all questions could be referred, with the understanding that no one here would comment on the purchases in any other way. So that you might consider this alternative, I have written out a possible explanatory note.

"The statement this week indicates purchases of \$167 million certificates of indebtedness for System Open Market Account. Although it has for some time been the policy of the Federal Open Market Committee to avoid purchases of when-issued securities during a Treasury financing, the Committee decided, in this instance, that such purchases were consistent with its overriding aim of providing reserves to the banking system in accordance with the objectives of credit policy."