FEDERAL RESERVE BANK OF RICHMOND

RICHMOND 13, VIRGINIA

June 8, 1955

PERSONAL AND CONFIDENTIAL

The Honorable Wm. McC. Martin, Jr.
Board of Governors
of the Federal Reserve System
Washington 25, D. C.

Dear Bill:

In accordance with the suggestion made at the meeting of the Special Committee on Monday, I enclose a copy of the notes I used at the meeting.

Sincerely yours,

Hugh

Hugh Leach

June 4, 1955
HL

Notes Prepared for Use at the Meeting of the Special Committee of the Federal Open Market Committee at Washington on June 6, 1955

The existing organization of the Open Market Committee appears awkward but it has worked well in practice. Our assignment is to devise a more logical type of organization which will function in a way comparable to the existing organization. Particular attention is to be given to the formal status of the Manager of the Account with a view to making him more directly responsible to the Open Market Committee as a whole.

As I see it, the key point is institutional versus individual responsibility for operations in the open market. Should the directives of the Executive Committee be addressed to the Federal Reserve Bank of New York or to the Manager of the Account? In this connection it should be remembered that it is never practicable to draw a fine line between policy and operations. At the moment, I see no convincing case for the retention of institutional responsibility for operations as a principle and I believe it could be abandoned without legislation. I would not, however, suggest amendment or modification of existing institutional responsibility unless some other type of equally efficient organization can be devised. Changes in relationships between the Open Market Committee and the Federal Reserve Bank of New York and the financial community should be held to a minimum.

Chairman Martin has presented a plan under which directives of the Executive Committee would be addressed to the Manager of the Account rather than to the Federal Reserve Bank of New York. This would place primary responsibility for operations upon an individual rather than an institution. In other respects the proposal would apparently keep the New York bank "in the picture" as much as practicable. In Item 6 of the Chairman's plan it is stated, "The Manager would, of course, report to the Vice Chairman of the Federal Open

Market Committee as well as to the Chairman and other members." It is clearly impracticable for the Manager to maintain continuous contact with all twelve members of the Open Market Committee, and it is my understanding, drawn from Chairman Martin's comments at the first meeting of the Special Committee, that there is no intention to change the present practice under which the Manager is in continuous consultation with the Vice Chairman of the Open Market Committee with respect both to interpretation of instructions and conduct of operations. To me, it is important that this be understood.

Two provisions, or sets of provisions, in the Chairman's plan merit careful study by the Special Committee --

(a) Both the Manager of the Account and the Trading Desk would maintain contacts with dealers. How would this work in practice? Would the dealers and money market banks talk freely with both? Would the Manager of the Account have the "feel" of the market as he now does? Who would discuss with the Treasury the timing of calls on tax and loan accounts? How would purchases and sales by the Federal Reserve Bank of New York for the Treasury, foreign central banks, and member banks be coordinated with open market purchases and sales? Who would keep in close contact with the money desks of the money market banks? Some of these questions are more important than others, and there are probably other pertinent questions that have not been mentioned.

(b) The plan contemplates full cooperation on the part of the Federal Reserve Bank of New York in supplying technical, financial, and economic data to the Manager of the Account. Would this present serious problems to the New York bank?

For one who lives in Richmond it is difficult to answer satisfactorily the questions listed above or to appraise the probable reaction of the financial community to the Chairman's plan without first obtaining the views of the President and directors of the Federal Reserve Bank of New York.

Mr. Sproul's letter of May 12, 1955 and his memorandum dated May 10, 1955 have been read with interest. His proposal that the Manager be appointed by a joint committee of the Open Market Committee and the directors of the Federal Reserve Bank of New York would make the Manager more directly responsible to the Committee, but I think the Special Committee should attempt to develop alternative recommendations.

The Special Committee has an important assignment, and, as previously indicated, I should like to have the views of the New York bank on the questions listed under (a) and (b) above before arriving at any definite conclusions.

Regardless of any other changes which may be proposed, I think it would be desirable for all expenses incurred in open market operations to be shared by the twelve Reserve banks.