July 6, 1955

MEMORANDUM:

To Members of Special Committee of the Federal Open Market Committee

Re: Management of the System Open Market Account

From J. L. Robertson

The objective of the Special Committee is to devise an acceptable procedure for achieving closer and more direct contact between the FOMC and the management of the System Open Market Account. When we began our consideration of this problem, I felt that the solution might be the employment of a Manager who was physically located in Washington and who was not an employee of a Federal Reserve Bank.

Further consideration has inclined me to believe that the benefits of having the Manager in New York and an official of the New York Reserve Bank may outweigh the disadvantages. Hence I wonder whether we can eliminate - or at least diminish - the shortcomings of the present arrangement without changing the status or location of the Manager.

I submit for consideration the possibility that this objective might be achieved in large measure by altering and expanding the duties of the Secretary of the FOMC. By virtue of his location in Washington and the ready availability of daily contact with a majority of the members of the Committee, he is permeated to an exceptional degree with the "feel" of Committee policies, just as the Manager develops the feel of the money market through his daily contacts in Wall Street. In the event of need, the Secretary can quickly and conveniently check his understanding of Committee policies with a majority of the Committee members themselves. Finally, by virtue of his separation from the mechanics of the money market, the Secretary is in a position to fix his mind almost exclusively on the major objectives of the Committee's current monetary policies, to a degree that would seem to be psychologically impossible for the Manager, who is necessarily preoccupied, to a considerable extent, with the practical effectuation of policies.

Accordingly, I suggest an arrangement under which no substantial transactions shall be entered into by the Manager until he shall have cleared the proposed action with the Committee's Secretary, as a check on its conformity with the Committee's current policies. In order to allow the Manager some necessary leeway, we might decide that, during a testing period at least, such prior clearance would be called for only on days when the Manager contemplates transactions of substantial volume - say $30 million or $40 million.

The suggested arrangement might strengthen the control of the Committee over the effectuation of its policies while preserving the benefits of management located in the prime money market and constituting a part of the New York Reserve Bank as the Committee's institutional agent. The functions of the two officers would complement each other, and our operations would benefit from the double check of the Secretary's intimate daily contact with Committee thinking and his detachment from direct concern with the practical problems of open market transactions, in addition to the benefit of the Manager's immediate and continuous knowledge of market conditions. It seems possible that a plan of this nature, modified and perfected by trial and error, might develop into an arrangement combining direct responsibility and control with practical and efficient operation.

Needless to say, this is in no sense a suggestion that the Secretary take over functions heretofore performed by the executive committee; those functions will be performed by the full Committee, in accordance with our recent decision. The Committee will not be delegating any of its discretionary powers to its Secretary; his actions in cooperation with the Manager will be based simply upon his understanding of Committee policy as it applies to the day's (or hour's) proposed open market transactions. Nor would the Secretary have any authority to direct the Manager to take any specified action, although he should feel free to initiate discussion (either with the Manager or with members of the Committee) of proposals for transactions that seem to him to be in keeping with the objectives of the Open Market Committee. His sole authority in this connection would be to veto any proposed course of action that seemed to him to be contrary to Committee policy. In all probability this authority seldom would be exercised. In case the Secretary was doubtful as to the will of the FOMC, he would be expected to contact all available members of the FOMC and ascertain the majority view with respect to the matter in question.

Under the suggested arrangement, the Secretary - like the Manager - would report to the Committee regularly on his activities with respect to open market operations, including consultations with members of the Committee regarding proposed transactions.

The foregoing proposal would require the Secretary to devote all of his time to Open Market Committee matters. This seems clearly justified by the importance of our duties in the field of monetary regulation and the advisability of the closest and most efficient possible coordination of policy decisions with day-to-day operations. Consequently, the Secretary should be released from all other duties, although he would continue to be selected by the Open Market Committee from among the Board's employees and he would remain on the payroll of the Board of Governors.