FEDERAL RESERVE BANK OF NEW YORK

NEW YORK 45, N. Y.

REctor 2-5700

ALFRED HAYES
President

May 6, 1960

Hon. William McC. Martin, Chairman
Federal Open Market Committee
c/o Board of Governors of the
Federal Reserve System
Washington 25, D. C.

Dear Bill:

Before I left the Bank on my recent trip to Europe I had hoped to talk with you or write you about one aspect of the hearings conducted by the Joint Economic Committee on February 2, 1960, but time passed and I didn't get to it. I was disturbed by possible implications of, or interpretations that might be placed upon, a statement you made at the hearing.

In response to a question by Senator Douglas regarding the "bills only" policy, you said, in effect, that an important reason for the policy is to guard the integrity of the Desk at the Federal Reserve Bank of New York and to minimize any chance of people charging the Desk with favoritism to one group or another. (Page 225 of stenographic transcript.) This expression of views was reported in the newspapers; it received wide circulation in financial circles and engendered a variety of comments. As you can well understand, there have been some unfortunate effects on the morale of those of our staff engaged in open market operations.

As you know, the Federal Reserve Bank of New York, acting for others than the System Open Market account, has engaged over the years in a large volume of transactions in Government securities of varying maturities, including long-term bonds. No question has ever been raised, so far as we know, either within the System or outside the System, regarding the integrity of the Desk or favoritism on its part in the handling of these transactions.

The operations of the personnel on the Desk are carefully reviewed by their superiors; indeed, most of the details of the transactions are agreed upon by their superiors before the transactions are executed. The procedures for audits by our own General Auditor and for examination by the examiners of the Board of Governors are intense. Going beyond these "technical" safeguards, I have been impressed time and time again, since I have been with the Bank, with the integrity and personal dedication with which the officers and employees concerned with the operations of the Desk have undertaken their work.

Perhaps one may question the judgment of the Desk with respect to a particular transaction just as one may question my judgment or the judgment of any other member of the Federal Open Market Committee as to the type of credit policy called for at any particular time. But judgment and integrity are quite different. There has never been any doubt in my mind about the integrity of our staff or about its capacity to carry out open market operations directed by the Committee without showing favoritism to one group or another and without giving any basis for any reasonable man to charge favoritism.

I know that Congressional hearings can be very trying at times and there is no doubt that the hearing on February 2 was especially trying for you. Under such circumstances it is difficult to phrase one's responses and to foresee all the implications of what one might say. I did think, however, that you should know about our reaction.

Yours sincerely,

Alfred Hayes,
President