

March 13, 1962

The Honorable Brent Spence,
Chairman, Committee on Banking
and Currency,
House of Representatives,
Washington 25, D. C.

Dear Mr. Chairman:

You have asked for my comments on a "Suggested Wording for Banking and Currency Committee Report on H. R. 10162," dated March 7, 1962. Feeling that this draft either reflects, or would lead to, misunderstandings about our operations and our relations with the Congress and the Treasury, I submit the following comments:

First, the Federal Reserve intends to make information concerning its foreign exchange operations available to the public to the fullest extent consistent with accomplishing their purpose. Federal Reserve holdings of foreign currencies will be included under "other assets" in the statement of condition of the Federal Reserve Banks published weekly, and will be separately stated in the Federal Reserve Bulletin, published monthly. Breakdowns of holdings by currencies will be made public with only such time lag as appears necessary to forestall use of the information by speculators. As to market operations, certain information necessarily will have to be kept confidential. It would be self-defeating to reveal market operations before or in the midst of their execution, or to reveal the amounts involved in planned or pending operations. As to reciprocal balance arrangements with reserve banks in other countries, we expect to release information promptly, as we did in the case of the first such arrangement, with the Bank of France. Of course if the foreign reserve bank concerned should insist that certain details not be made public, we would have no choice but to comply with their wishes or to forego an arrangement that might be important for defense of the dollar.

Second, any "arrangements" between the Federal Reserve and reserve banks in other countries will be confined to normal banking transactions incidental to the establishment and use of reciprocal balances and will in no wise involve matters normally negotiated through Executive Agreements.

Third, we have worked closely and in complete harmony with the Secretary of the Treasury at every stage in shaping and establishing this program. We will continue to do so. However, we must recognize that Congress has given the System responsibility for exercising its own judgment in monetary matters, free from control by any Executive Department. Therefore, if the occasion should ever arise that the Secretary of the Treasury should ask the Federal Reserve to engage in foreign exchange operations which in our judgment were financially unsound, we would have to refuse. On the other hand, the Federal Reserve obviously must operate within the framework of the established foreign financial policy of the United States. Therefore, even if the Federal Reserve believed that certain operations in foreign exchange were desirable to protect the dollar, we would refrain from engaging in them if the Secretary of the Treasury or the National Advisory Council on International Monetary and Financial Problems advised us that the operations would conflict with United States foreign financial policy. Admittedly, in the large area between these extremes close cooperation will be called for to avoid duplication of effort or even conflict between our operations and those of the Treasury Stabilization Fund. This cooperation is facilitated by the fact that operations for both the Treasury and the System are carried out through the Federal Reserve Bank of New York. In addition, there is daily consultation between the Treasury and the Federal Reserve on foreign exchange developments and operations. Further experience with these operations will provide clearer guidelines than we now have for achieving maximum efficiency in making the two operations. We are fully aware of the need to work closely with the Treasury to this end.

Finally, these operations are being undertaken only after the most careful consideration of the question of whether Congress had authorized them. Our general counsel concluded, after thoroughly studying the question, that Congress has granted this authority. This opinion was concurred in by the general counsel of the Treasury and the Attorney General. It is true that the Federal Reserve has not used this authority for many years. Under present world conditions, however, this authority should be used. If we are to live up to the responsibilities Congress has assigned to the Federal Reserve, we must contribute all we reasonably can to the defense of the dollar while solutions are being worked out to the basic problem of the U. S. balance of payments.

Sincerely yours,

Wm. McC. Martin, Jr.

RLC/JHF/CN:ac

cc: Mr. Molony
Mr. Furth
Mr. Young
Miss Muehlhaus
Mr. Cardon