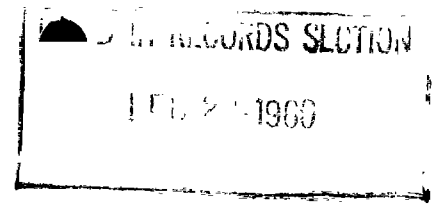




BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



February 24, 1960

CONFIDENTIAL (FR)

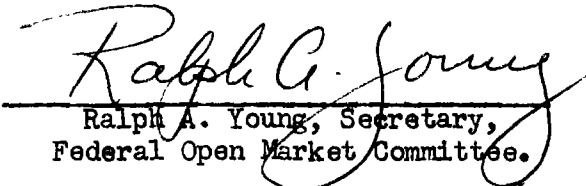
TO: Federal Open Market Committee

FROM: Mr. Young

In view of recent discussions of the Federal Open Market Committee's continuing operating policies and of suggestions for possible change in the form of the directive, there has been assembled a group of excerpts from the minutes of meetings of the Open Market Committee held in 1953-1955, at which earlier discussions of these matters took place. It is believed that a review of these earlier discussions would be helpful to all members of the Committee and to the Presidents of the Federal Reserve Banks who are not now members or alternate members of the Committee in connection with whatever further discussion takes place regarding either the continuing operating policies or the directive.

As additional background, particularly for any discussions of the continuing operating policies, it may also be helpful to have readily available in convenient form the minutes of that portion of the meeting of the Federal Open Market Committee on March 3 and 4, 1953, at which the report of the Ad Hoc Subcommittee on the Government securities market was considered and acted upon. Accordingly, a copy of this portion of the minutes for that meeting also is enclosed. Other references to the continuing operating policies that you may wish to review are to be found in the minutes of the first meeting held in March of each year since 1953, particularly those on March 5, 1957 (pages 10 and 11) and March 3, 1958 (pages 46-49).

Drafts of several memoranda prepared by various individuals relating to the proposed changes in the wording of the continuing operating policies or in the form of the directive are also enclosed, along with copies of statements that will be of interest in connection with these subjects.


Ralph A. Young, Secretary,
Federal Open Market Committee.

Enclosures

CONFIDENTIAL (F.R.)

EXCERPT FROM THE MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE OF
THE FEDERAL OPEN MARKET COMMITTEE ON MAY 13, 1953

REC'D IN RECORDS SECTION
MAY 25 1953

Chairman Martin referred to a proposal regarding a revision in the directive of the Federal Open Market Committee which had been prepared pursuant to the understanding at the meeting of the full Committee on March 4-5, 1953, and copies of which had been distributed before this meeting. He suggested that there be a discussion at the next meeting of the executive committee of the proposal for revision in the directive of the full Committee as well as in the instructions issued by the executive committee to the Federal Reserve Bank of New York, with a view to presenting any suggestions which the executive committee might have at the meeting of the full Committee to be held during the week of June 8, 1953. In this connection, Chairman Martin suggested that the next meeting of the executive committee be held on Tuesday, May 26, 1953, at 10:30 a.m. and this suggestion was concurred in by the members of the committee who were present, Mr. Erickson noting that he would be unable to attend a meeting on or about May 26.

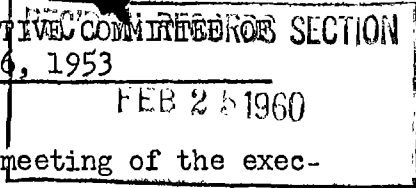
At Chairman Martin's suggestion, Mr. Vest made a statement with respect to the proposed revision in the directive of the Federal Open Market Committee, and there followed a brief discussion of the proposed changes. During this discussion, Mr. Erickson raised the question whether the terms of the directive as proposed for revision permitted sufficient latitude for operations between meetings of the Committee, and Mr. Riefler responded that the substance of the proposed directive was the same as that of the present directive, which had merely been

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rearranged as a means of illustrating the suggested change in form. He noted that the terms of the directive could be made more specific or less specific at any meeting of the Committee. There was also a brief discussion as to whether a change in the form of the directive of the full Committee would necessarily result in any change in the substance of the record of policy actions prepared pursuant to section 10 of the Federal Reserve Act and published in the annual report of the Board of Governors. At the conclusion of the discussion it was agreed that the matter would be placed on the agenda for consideration at the meeting of the executive committee on May 26 with a view to submitting any proposal which the committee might agree upon for the consideration of the full Committee at its meeting in June.

EXCERPT FROM THE MINUTES OF THE MEETING OF THE EXECUTIVE COMMITTEE OF THE FEDERAL OPEN MARKET COMMITTEE ON MAY 26, 1953



In accordance with the understanding at the meeting of the executive committee on May 13, there had been placed on the agenda for consideration at this meeting a proposal for revision of the general directives of the Federal Open Market Committee and of the executive committee, prepared pursuant to the understanding at the meeting of the full Committee on March 4-5, 1953.

Mr. Riefler outlined the suggested revisions in the directives to be issued by the full Committee and the executive committee, stating that they dealt with form only and did not include substantive changes.

During the ensuing discussion, questions were raised as to whether the directive to be issued by the full Committee to the executive committee should be in two parts (a general instruction, to be issued once a year, and a specific directive to be issued at each meeting of the Committee), or whether the present single directive should be retained; whether there was need for having an annual review of operating authorizations of the type that ordinarily had been reviewed at the organization meeting of the Committee in March of each year or whether these authorizations might be taken up for consideration only when a change was contemplated; and whether in view of the understanding at the meeting of the full Committee on March 4-5, the executive committee should make any recommendation to the full Committee concerning a proposed revision in the form of directives. In this connection, Chairman Martin expressed the view that it would be preferable for the executive committee not to make a recommendation to the full Committee.

Mr. Sproul stated that he saw no objection to this procedure, and

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in response to Mr. Sproul's question as to whether the full Committee would be expecting a draft of revised form of directive at its next meeting, Mr. Riefler said that it was assumed that some consideration would be given to the form of the directive at the June meeting in view of the fact that a number of recommendations which had been made in the ad hoc subcommittee report had become effective since the meeting of the full Committee in March.

Mr. Mills suggested that, inasmuch as a relatively short period had elapsed since the changes in procedure approved at the March 4-5 meeting had become effective, consideration of a revision in the form of the directive might be postponed until more experience had accumulated under the general type of operation now being followed.

There was a further discussion of the matter during which Chairman Martin suggested that the proposed revision of the directives, changed to delete certain phrases in accordance with a comment by Mr. Sproul, might be sent to all members of the full Committee for their information, with the understanding that the executive committee had no recommendation to make but that the matter would be placed on the agenda for the next meeting of the full Committee.

In this connection Mr. Robertson suggested that, whereas the present proposal for revision represented a change in form only, it might be desirable for the staff to prepare for the consideration of the members of the full Committee any substantive changes which it felt should be made in the directives, and Chairman Martin stated that the staff should feel free to submit drafts of any such proposals.

At the conclusion of the discussion, it was understood that Chairman Martin's suggestion with respect to handling of the matter would be followed.

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EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON JUNE 11, 1953

Chairman Martin referred to a draft of proposed revision in the directive of the Federal Open Market Committee prepared pursuant to the understanding at the meeting of the full Committee on March 4-5, 1953, a copy of which had been sent to all members of the full Committee and the executive committee. At the Chairman's request, Mr. Vest commented on the proposal, emphasizing that the drafts prepared by the staff were intended to change only the form of the directives and were not intended to make any changes of substance in them.

Chairman Martin stated that while the drafts of revision had been discussed by the executive committee at its meetings on May 13 and May 26, the committee had no recommendation to make with respect to the matter. During a brief discussion, he suggested that the full Committee refer the matter to the executive committee with the understanding that the executive committee would appoint two of its members to consider the proposal for revision in directives, and with the further understanding that this special committee would submit its recommendations to the members of both the full Committee and the executive committee.

This suggestion was approved
unanimously.

EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON SEPTEMBER 24, 1953

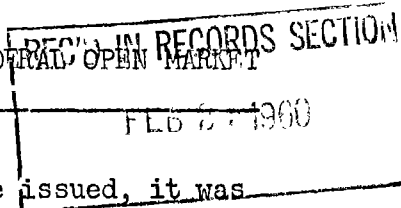
REC'D IN RECORDS SECTION

Chairman Martin referred to the action taken at the ^{FED. MEETING} meeting of the Federal Open Market Committee on June 11, 1953 in connection with a proposed revision in the directives of the Federal Open Market Committee and its executive committee, at which time the matter was referred by the full Committee to the executive committee with the understanding that the latter would appoint two of its members to consider the proposal further. The executive committee, Chairman Martin noted, at its meeting on June 11 appointed Mr. Sproul and himself for this purpose and it was understood that the special committee would submit its recommendations to the members of both the full Committee and the executive committee.

Chairman Martin went on to say that in accordance with that action, further drafts of revised directives were prepared and considered. After reflection upon the entire matter and in the light of the various drafts that had been prepared, he said, Mr. Sproul and he felt that it was questionable whether much would be accomplished by further consideration of a revision at this time of the directives now in use. They felt, instead, that the full Committee and the executive committee might well continue to utilize the existing forms of directives, modifying them, of course, upon such occasions as circumstances may dictate. Accordingly, Chairman Martin said, the special committee recommended the continued use of the existing forms, with changes being made by the respective committees from time to time as special circumstances may indicate.

The recommendation of the special committee as set forth by Chairman Martin was approved unanimously.

EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON DECEMBER 15, 1953



During a discussion of the directive to be issued, it was suggested that the clause in the existing directive which had provided that the executive committee should arrange for transactions for the System open market account with a view, among other things, "to avoiding deflationary tendencies" should be changed in keeping with the decision at the morning session that the over-all objective of credit policy should be one of actively maintaining a condition of ease in the money market.

There was also a discussion of the purpose of clause (d) of the directive which authorized that transactions be with a view "to the practical administration of the account." Mr. Vest said that it was difficult to state precisely what was authorized by this clause but that it gave a certain amount of leeway for incidental transactions in the account which were necessary to carry out effectively and appropriately the policies otherwise prescribed by the Committee, within the limitations established under the general policy or other directives adopted by the Committee. Mr. Vest noted that the clause in its present form or in a similar form had been used in virtually all directives of the Federal Open Market Committee and of the executive committee since the Committee was reorganized pursuant to the Banking Act of 1935.

After some discussion, Chairman Martin suggested that the clause be retained in the directive to be issued at this meeting but that its purpose be reviewed before the next meeting, and there was unanimous agreement with this suggestion.

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EXCERPTS FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON MARCH 3, 1954

Chairman Martin stated that, as agreed at the meeting on December 15, 1953, Mr. Vest had looked into the meaning of the phrase in the Committee's directive providing that transactions, among other things, be with a view to "the practical administration of the account". Each member of the Committee had been furnished with a memorandum dated December 29, 1953, concerning this point.

Mr. Vest reviewed briefly the content of the memorandum referred to, stating that the phrase or some closely similar phrase had been used in virtually all directives of the Federal Open Market Committee or of the executive committee since the Committee was reorganized pursuant to the Banking Act of 1935. He said that the phrase gave authority for those incidental decisions, procedures, and actions necessary to carry out effectively and appropriately the policies otherwise prescribed by the full Committee and the executive committee and within the limitations established by their directives or otherwise. It did not permit actions to influence or change market conditions other than in accordance with the policy directives. It was Mr. Vest's view that while the phrase perhaps was not essential, it was preferable to have it or some similar phrase in the directives.

Following a brief discussion, it was agreed that the phrase under discussion would be retained in the Committee's directive.

EXCERPTS FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON DECEMBER 7, 1954

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There followed a general discussion of possible changes in the wording of the directive to be given the executive committee.

During the discussion, Mr. Sproul moved that clause (b) of the existing directive to the executive committee with respect to arranging for open market transactions be amended to delete the word "actively" so that it would read that such transactions were to be with a view "(b) to promoting growth and stability in the economy by maintaining a condition of ease in the money market".

During discussion of this motion, reference was made to the suggestions contained in Mr. Sproul's statement earlier in this meeting, namely, that there be taken out of the present directive the command to be aggressive in maintaining a condition of ease and, instead, to aim at taking some slack out of the market, but not at restraint. Some of the members of the Committee indicated that they felt a program of this sort could be carried on without change in the wording of the present directive. Others felt that the directive preferably should be changed to eliminate all reference to maintaining ease in the market, and to provide in clause (b) only that transactions be with a view "to promoting growth and stability in the economy." In connection with both these points of view, it appeared to be the consensus that some shift from the existing policy of "active ease" was desirable but that any change between now and the next meeting of the full Committee would be gradual and would not amount to restraint.

Mr. Sproul recalled that in past years the Committee's general directives had been sufficiently general in nature to cover whatever program was contemplated at the time of the meeting, with the result that

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the wording of the directive had shown little or no change over considerable periods of time even though there were major changes in policy. Subsequent to 1951, he noted, the Committee had decided that it was preferable to spell out a little more definitely the policy to be followed between meetings and, since it now seemed to be the consensus that the Committee contemplated a change in policy, even though it was to be ever so mild and ever so gradual, he felt it desirable that a change be reflected in the wording of the directive.

Mr. Leedy said that he would be somewhat disturbed by a change in the directive which eliminated all reference to ease, and which would provide only that operations were to promote growth and stability in the economy. To make the directive so general in nature would be to return to the type of directive that Mr. Sproul had mentioned had been used a few years ago; such a directive would provide no definite guide to the executive committee but would be so broad in its terms that it would never need to be changed no matter how policy might change. Mr. Leedy questioned the desirability of resuming the use of directives so general in nature. On the other hand, he felt that since some change in policy was contemplated, a change should be evident in the wording of the directive and he, therefore, would be inclined to favor Mr. Sproul's motion.

Chairman Martin stated that he was impressed with the points made by Mr. Leedy and that, while he felt the general purpose of the Committee was to promote growth and stability in the economy, it probably would be undesirable to change clause (b) of the directive so that it provided only for this objective.

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Following further discussion in the light of the alternative suggestions referred to and of Mr. Leedy's comments, Mr. Sproul's motion that clause (b) of the directive be changed to delete the word "actively" so that the clause would read "to promoting growth and stability in the economy by maintaining a condition of ease in the money market" was approved by unanimous vote. In taking this action, it was understood that the Committee contemplated a gradual reduction in the amount of ease in the market without approaching a policy of restraint.

In a reference to his suggestion that the executive committee might instruct the Manager of the System Open Market Account to operate on the "feel" of the market, Mr. Sproul stated that Mr. Bryan must have misunderstood the suggestion when it was first made. His thought, Mr. Sproul said, was that the Manager might be instructed by the executive committee to take into account the "feel" of the market as well as the volume of free reserves, money rates, and other factors. In other words, "feel" was to be only one of the factors to be considered in determining open market operations within whatever limits were prescribed by the full Committee and the executive committee.

In response to a question from Chairman Martin, Mr. Rouse stated that he had no suggestion for change in the limitations in the directive to be given by the full Committee to the executive committee.

EXCERPTS FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON JANUARY 11, 1955

REC'D IN RECORDS SECTION

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Mr. Sproul then made a statement substantially as follows:

1. First, I would like to say that I think the action of the Board of Governors in raising margin requirements last week was a timely and appropriate move, as a warning concerning the use of credit in the stock market, and having in mind the possible effect of movements in the stock market on the whole economy. I also think that it was a proper use of a selective credit control in the sense of supplementing over-all credit policy; it was in accord with the action taken by the Federal Open Market Committee at its last meeting changing the wording of its directive to the executive committee from one calling for the maintenance of active ease in the money markets to one calling for the maintenance of ease.
2. Second, I agree that economic recovery is no longer in the "bud" but I question whether such inflationary pressures as exist now need to be or can be nipped in the bud by general credit controls. We have an economy in which long-term growth factors and cyclical recovery factors are combining to produce a vigorous upturn, which seems likely to persist for some time, and I would not want to see it hindered at this stage by general credit restraints.
3. To discuss this question, in terms of open market policy, it seems to me that we may need to have a clearer understanding of some of the terms we have been using to label open market policy. In our discussions we have gotten into the habit of using such terms as "active ease", "ease", "neutrality", and "restraint", but we seldom try to define what these terms mean. We need also to recognize that they only label broad general policies, and that there can be numerous gradations of policy within broad general policies. Changes are ordinarily made gradually within the limits of a broadly defined policy, not by abrupt movements from one policy to another. That is a difficulty in catching in a phrase, or a directive, these refinements of policy and the thinking of each of twelve individuals which led to those refinements.
4. To assist my own thinking, and as a rough approximation of present meaning I have tried to give some definition to the terms we have been using.
"Active ease"
 - (a) Maintenance of a volume of excess reserves large enough to assure ready availability of bank credit, in ample volume for all borrowing needs meeting ordinary standards of credit worthiness. This ease should be expected in time to pervade all credit and capital markets.

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- (b) The discount rate at a low level.
- (c) Relatively low interest rates at all maturities, with a tendency toward a continuing decline of rates whether or not continued declines are desired as a matter of policy.
- (d) Short-term money market rates ordinarily far enough below the discount rate so that access to reserve funds will be cheaper through the open market than through the discount window.
- (e) Member bank borrowing from the Federal Reserve Banks only intermittently, and in small volume by reason of individual bank situations.

"Ease"

- (a) Bank reserves and bank credit continue readily available to meet credit-worthy demands; no need of allocation of funds, on part of banking system as a whole, to particular uses because there is not enough credit to go around; but no pressure on the banks to find uses for a continuously increasing supply of reserves.
- (b) Discount rate continues at a low level.
- (c) Tendency toward decline in other rates of interest (existing during period of "active ease") is checked and some rates advance.
- (d) The more sensitive money market rates - Federal funds, dealer loans, and Treasury bills - move up toward discount rate so that, at times, borrowing reserves through discount window may be more advantageous than obtaining them through the open market.
- (e) Individual member banks borrow with some frequency in initial response to expanding credit needs but a sustained and growing aggregate volume of borrowing is soon relieved by open market operations.

"Neutrality"

- (a) Volume of bank reserves still ample to meet credit-worthy demands. Market factors allowed to express themselves in the reserve position of banks. This would mean, in most instances, no continuous cushion of excess reserves and the elimination of free reserves in the aggregate.
- (b) Any appreciable change in economic conditions or over-all credit demands would have a fairly prompt reflection in more sensitive rates of interest and, if there were tightening tendencies, the sensitive money market rates would be expected to move above the discount rate.

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- (c) At some stage, if these tendencies continue, the discount rate would be moved up toward what might be considered the middle of its range.
- (d) A moderate volume of member bank borrowing might be outstanding much of the time, but continuing pressure on the banking system as a whole to meet its needs by heavy borrowing would eventually be resisted by open market operations.

"Restraint"

- (a) Through absorption of reserves or reluctance to provide reserves through open market operations, general awareness would be created that bank credit is not available in sufficient volume to meet all of the demands that are being made upon it.
- (b) Pressure of an excess aggregate demand of credit upon a limited over-all supply would be expected to cause higher rates of interest, and there may be a tendency for rates to rise whether or not intensification of pressure is desired. (Our experience in early 1953 is an example, perhaps.)
- (c) The discount rate would be raised in confirmation of the general policy of restraint, to the higher levels of its range.
- (d) Sensitive money market rates would be close to or above the discount rate at all times.
- (e) A substantial growth of member bank borrowing should take place, as a result of excess credit demands, which would only be moderated by open market operations if the apparent degree of restraint was becoming too great.
- (f) Reserves continue available at all times at a price - the objective is not to shut off bank credit or even a net reduction, but to limit growth so as to avoid inflationary pressures from the monetary side.

5. In these terms, the present economic situation still seems to me to call for a policy of "ease", call it minimum ease if you want, rather than a neutral or restrictive policy. Cyclical recovery from the recession of 1953-54 has shown additional vigor in the last two months and the economy seems likely to continue strong during the next few months. But it still remains true that the revival reflects more a cessation of deflationary influences than the emergence of new and continuing expansionary forces. The most recent dynamic factors in the

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recovery - the early date of model change and the upsurge of automobile production, and the continuing stimulus of very liberal credit terms in the home construction industry are not new expansionary forces and may possibly carry the seeds of their own deflation later in the year. With inventory liquidation only now coming to a halt, with non-farm prices generally stable and farm prices still declining, with high productive capacity facing increased competition, with the possibility of a continuing problem of unemployment and major labor conflicts, and with the Treasury taking funds out of the economy instead of putting them in as during the past six months, there seem to me to be economic (and political) dangers in trying to reach, by general credit measures of a more restrictive nature, whatever spots of speculation or inflation may seem to be developing at the moment.

6. So far as credit policy is concerned, it should be emphasized that right now we want to meet the credit requirements of cyclical recovery as well as secular growth. Without creating a general inflationary bias or the need for a neutral or restrictive credit policy, this combination of demands might lead to a less than "seasonal" decline in the use of bank credit during the first half of 1955, or might even result in some desirable expansion of such credit. We should not be led, therefore, by shaky figures of "normal, seasonal" declines in the use of credit to adopt a more restrictive policy than the economic situation justifies.
7. With a continued policy of "ease":
 - (a) I would expect banks, and particularly money market banks, to be in a well-balanced position - no longer under pressure, as they were last year, to seek new investments continuously in order to avoid carrying excess reserves, but still ready and eager to meet legitimate loan demands.
 - (b) I would expect sensitive short-term money market rates to fluctuate only a little way below the discount rate most of the time.
 - (c) And I would expect the discount window to become more of a factor in providing bank reserves.

This would seem to me to be a healthy situation.

8. Just where free reserves fit into this picture is hard to pinpoint. We have to remember that we are in the process of weaning the banking system from a condition of active ease, and that we want to put on the brakes gradually, and maybe even take them off from time to time. We also have to remember that the distribution of reserves is a variable which can

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be important. So far as free reserves can be used as a guide, therefore, I think we shall have to feel our way down. We may find that over a period of several weeks we can and should get rid of the idea of free reserves, and of free reserves themselves, but I still want to move gradually rather than abruptly at this stage of our economic recovery. A change in the directive of the Federal Open Market Committee to its executive committee, which would call for credit restraint as contrasted with our present policy of less ease, would seem to me to be a mistake.

Mr. Sproul concluded by remarking that he would not wish to see the intent of the directive changed at this time. As regards Chairman Martin's suggestion, Mr. Sproul said that he had no objection to substituting "foster" for "promote" in the directive so long as the Committee understood that our operations were still aimed at the lower end of a condition of "ease".

Chairman Martin stated that he felt all of the members of the Committee had benefited from Mr. Sproul's comments and that he hoped each of them would read Mr. Sproul's statement on the definition of terms. In his (Chairman Martin's) opinion, one of the biggest problems of the Committee was understanding the terms that were used in describing credit policy and in translating those terms into instructions or directives contained in the minutes of the meetings of the Committee. Chairman Martin went on to say that there obviously was a difference of judgment between Mr. Sproul and himself in connection with the economic situation and the credit policy that should be followed, although he did not think it very large. He said that he regretted very much the "leak" that developed in the policy of the Committee immediately following its meeting on December 7, 1954 when the word "actively" was removed from the full Committee's directive to the executive committee in describing the program to be

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followed in maintaining ease in the market. However, it is necessary to put into the annual record of policy actions of the Federal Open Market Committee a statement with respect to the policy decisions reached at at least four meetings a year--in fact, Chairman Martin said, there was a likelihood that a bill would be introduced in the Congress to require a statement of open market policy decisions each quarter of the year. It was Chairman Martin's view that the Committee should issue its directives in terms that followed as closely as possible the views and words on which there was a meeting of the minds of the members of the Committee. This was difficult but every effort should be made to follow such a procedure. His own personal view as to the current situation was that the use of the word "promote" in the Committee's directive was not appropriate under present circumstances. Chairman Martin said that he was not talking about apprehensions as to the future: that what might happen in the future was partly dependent on what the Committee did in the present. While he did not wish to stress the word "inflation" it was Chairman Martin's judgment that the forces of easy money in the market had gotten out of proportion to what the Committee has been trying to do in the way of promoting growth and stability in the economy. This did not mean that he felt the Committee should go to a policy of restraint but it did involve the problem of the exact meaning of such words as "ease", "active ease", "neutrality", and "restraint". While there had been a time when he felt "neutrality" was quite an important word, Chairman Martin said he was not sure of its meaning. He was sure, however, that the psychological reaction of the market was different at different times. He was convinced that the

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Committee recently had been operating with much too high a level of reserves and that, whatever the words used to indicate a change, flexible monetary policy called for a recognition of this situation. If the Committee after discussion did not feel that any change should be made in the directive, then the directive should remain unchanged. But it was important to make the directive reflect whatever the Committee felt fitted the situation at a given time. Chairman Martin did not think that he and Mr. Sproul were far apart on the level of free reserves that would be desirable but if open market operations were to be such that there would be "zero" free reserves for a time, he would prefer as a member of the executive committee that the directive from the full Committee be changed at this meeting to recognize a shift in emphasis.

Mr. Mills said that he would like to express a midpoint view. He thought the Committee was thinking of a "firm" money policy, not a policy of tightness or of ease. While he did not have the concern regarding the wording of the directive that had been expressed earlier in the meeting, he said that he was concerned as to how the directive of the Committee would be interpreted by the management of the account as it carried out operations under the continuing directives of the executive committee. Mr. Mills felt the present period was one of economic flux which deserved a cautious approach to future policy. The Committee had moved from its policy of active ease to a climate of "firmness". While the Committee wished to slow down investment activities, as in the long-term mortgage field, it would wish, if possible, to avoid choking off legitimate activities. Mr. Mills felt that whatever directive was decided upon, it would

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be desirable to vest the executive committee with an authority which would avoid a too rigid interpretation of the instruction: the instruction should be flexible enough to permit, if the executive committee found it was moving too severely toward a situation of tightness, relaxing from that position without need for going back to the full Committee.

Chairman Martin said that Mr. Mills had made an excellent contribution to the discussion, that it was particularly appropriate in view of the Treasury's position. Also, he noted that Mr. Mills had added the word "firmness" to the group of words Mr. Sproul had commented on in his statement. It was these different shades of meaning and emphasis that should be thought through, he said, in terms of the objectives of the Open Market Committee and the contribution that monetary policy could make under any given conditions.

Mr. Leedy felt that continuation of the word "ease" in the full Committee's directive might subject the Committee later on to an appraisal which it would not desire. It was evident, he said, that there were some excesses in the present situation, as in the securities market, and it was his view that at this juncture the Committee's record should indicate a directive to the executive committee to be moving in the direction of firmness, rather than to be continuing with wording that had gotten into the directive at a time the Committee was actively promoting ease. Mr. Leedy suggested that clause (a) of the full Committee's directive might well be amended by adding to it words which would make it read that open market operations should be with a view "to relating the supply of funds in the market to the needs of commerce and business by effecting an orderly

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reduction in the monetary supply responsive to seasonal requirements." He also suggested that clause (b) be changed so that the Committee's directive would not call for "promoting" or even "maintaining" a condition of ease. He questioned whether a program of operations such as Mr. Sproul had outlined could be carried out under the existing directive without violating the ordinary meaning of its terms.

Mr. Robertson, after stating why he felt it desirable to have meetings of the full Committee as frequently as might be called for because of differences of opinion, said that while he did not think the Committee was fighting inflation today, it was trying to prevent development of inflation. With that in mind and with the thought of a progression from a state of "active ease" to "ease" to something else, he would suggest that clause (b) of the Committee's directive be changed to indicate that open market operations should be with a view "to promoting long-term growth and stability in the economy by maintaining for the time being a condition of mild restraint." He did not care so much what the precise wording of the directive was and would have no objection to the wording Chairman Martin had suggested indicating that the Committee wished to avoid unsound conditions, but he did feel that the directive should show that the Committee was now moving from a condition of ease to something like mild restraint.

Mr. Williams stated that for purposes of perspective he would like to approach the problem of credit policy from another angle. During the past week, he said, he had been in touch with five individuals who had complained about the unusual competition that existed in business and about the pressures that existed on prices. He also cited complaints of automobile

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dealers that manufacturers were failing to protect dealers' territories. In another instance, the head of a large corporation had caused a survey to be started in his plant with a view to effecting all possible economies. Mr. Williams also stated that real estate firms had expressed concern about recent tendencies in credit policy and that one member of the Philadelphia Bank's Board had predicted that later this year there would be considerable weakness in the market for older houses, so much so that the advantages of going into an old house would be so great that many persons would turn from purchases of new houses which could be bought with no down payment and would instead purchase the older houses. Mr. Williams thought these factors added up to saying that the spirit of optimism which seemed so unanimous might grow out of special factors, rather than influences that were generally present in the economy. He could see nothing to indicate an incipient boom, and he did not think the Committee should go on record by inserting the words "mild restraint" in its directive. He would accept "fostering" in place of "promoting" and he would be agreeable to inserting a phrase that would suggest the avoidance of unsound conditions, but he did not think the existing policy of the Committee should be changed very much. While he would be willing to see the Committee working down a little in the amount of ease, it should not actually work in the other direction, that is, in the direction of restraint. In response to Chairman Martin's question, Mr. Williams agreed that what he was suggesting was working a little further toward the middle-ground in credit policy.

Mr. Balderston said he thought the recovery taking place was one which needed to be sustained and that this required attention to two

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incipient trends: (a) impairment of the quality of mortgage debt and automobile instalment paper, and (b) the climate of speculative activity that stemmed from conditions in the market. This led him to favor some change in the wording of the directive, preferably along the lines Chairman Martin suggested. More importantly, Mr. Balderston said, he would favor a change in target to a zero amount of free reserves and bill rates approximating or perhaps exceeding the present discount rate. Mr. Balderston said he was thinking of the problem that would face the System in the future of perhaps making an adjustment in the discount rate--he wished it were now 1-1/4 per cent instead of the existing 1-1/2 per cent rate.

Chairman Martin then summarized the several suggestions made, namely, Mr. Leedy's suggestion for a change in clause (a) of the directive which would call for effecting an orderly reduction in the monetary supply responsive to seasonal requirements; his own suggestion which would call for a change in clause (b) of the directive so as to provide for the conduct of operations with a view to "fostering" (rather than "promoting") growth and stability in the economy and avoiding the development of unsound conditions; Mr. Robertson's suggestion which would include insertion in the directive of "long-term" before "growth and stability" and of words indicating that the Committee was moving from a policy of ease to one of mild restraint; and Mr. Williams' caveat that whatever the change, the Committee avoid any wording of its directive which would indicate it was moving to a policy of mild restraint.

In a brief discussion of Mr. Robertson's suggestion that "long-term" be inserted before "growth and stability", it was the consensus that the idea of long-term was inherent in the objective of promoting or fostering

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growth and stability in the economy and, accordingly, that the addition of the words "long-term" was unnecessary. Mr. Thomas commented that the use of the words "growth and stability" as a part of the Committee's directive implied a sustained growth but that growth could not be sustained if it proceeded too fast.

Mr. Szymczak suggested that regardless of the wording chosen for the directive, the important thing was to discuss the policy which the Committee wished to follow to see if there could be a meeting of minds as to what the Committee meant when it used different terms. This would help when the executive committee and the Manager of the System Account came to interpreting directives given to them.

Chairman Martin stated that he felt the framework of what the Committee was trying to do at this time was fairly clear, but he doubted whether agreement could be reached at this meeting on definitions of terms.

Mr. Szymczak responded that he felt a study of the suggestions made by Mr. Sproul and of the changes proposed in the directive by Messrs. Leedy and Robertson would help in the future.

Mr. Earhart suggested that the Committee at least take the word "ease" out of its directive at this time. He could see no harm in taking it out and felt it would make a better record since it appeared the Committee did not now wish to be "pushing" reserves into the market.

In the course of further discussion, Mr. Robertson suggested that in place of the words "mild restraint" which he had suggested earlier it might be preferable to use the term Mr. Mills had used--"firmness"--as indicating the kind of policy the Committee had in mind.

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Mr. Sproul stated that he did not think the wording of the directive made too much difference if there was general agreement on what the Committee proposed to do and if the Committee knew what the executive committee was expected to do. With gross national product still \$5 billion below what it was in mid-1953 and thinking in terms of an economy that would grow over the long term, Mr. Sproul could see no basis now for introducing the word "firmness" into the Committee's directive. This would indicate a policy of restraint, and he felt the economy was still in that part of the quadrant of a circle calling for ease but working gradually toward the next step. However, so long as there was understanding as to the meaning of the words used and so long as the Committee understood that it was gradually feeling its way and not adopting a policy of restraint, he would not be concerned about the wording of the directive although he would prefer that it not be changed.

Chairman Martin then read a statement which Mr. Riefler had prepared indicating that the various views expressed all amounted to saying that the Committee wanted credit policy to be carried out with a view "to fostering growth and stability in the economy by effecting for the present an orderly reduction in the supply of free reserves."

Mr. Rouse said that this was about the conclusion he had come to: that the Committee had in mind gradually contracting the volume of free reserves from its present level.

No disagreement was indicated with the statements of Messrs. Riefler and Rouse as reflecting what the Committee had in mind as to policy for the immediate future, but Mr. Szymczak thought it would not be desirable to inject the words "free reserves" into the directive.

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There was a further discussion of the several suggestions made for change in the wording of the directive and of the desirability of having wording which applied to the immediate situation, rather than a statement of a general objective of credit policy good for all time to come. In the course of this discussion, Mr. Szymczak again suggested that it might be desirable to make a further study of the suggestions made by Mr. Sproul as to the definitions of terms; in the meantime, without changing the directive of the full Committee, the executive committee could work within the framework of a policy along the lines discussed at this meeting.

Chairman Martin responded that if the Committee was going to act now to authorize a policy along the lines of the discussion, he felt the Committee should agree at this meeting on a phrase which was representative of the shade of opinion on which there was agreement at the meeting today.

Mr. Irons then suggested that while he was not a member or alternate member of the Committee, the tenor of the discussion indicated to him that clause (b) of the Committee's directive would be given a meaningful wording if it were to provide that operations should be with a view "to promoting growth and stability in the economy by maintaining conditions in the money market so as to avoid the development of unsustainable expansion".

After discussion of Mr. Irons' suggestion, Mr. Sproul moved that the Committee modify clause (b) of the first paragraph of its directive to the executive committee to read, "to fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion".

Mr. Sproul's motion was put by the Chair and carried. On this motion, Mr. Bryan

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requested that he be recorded as "not voting". In connection with his request that he be recorded as not voting, Mr. Bryan made a statement substantially as follows:

I should like to be recorded as not voting. This request is made because I came to this meeting prepared to discuss the economic situation, and prepared to discuss appropriate policy in terms of reserves and money rates. I find myself ill-prepared to discuss textual changes in the directive of the Committee, and least of all prepared, in the light of the discussion we have had to appraise the significance of the textual changes actually adopted, or the magnitude of the policy changes contemplated by the changes of language. In view of this lack of preparation and understanding on my part, I believe that it is wisest for me not to vote either for or against the proposal.

It seems to me that there is a difference of opinion, or a substantial difference of emphasis, as to what our actual policy should be in the light of current economic events. We have not, I believe, come to grips with that fundamental and basic difference of opinion in terms of free reserves, total reserves, or money rates but have devoted ourselves to a textual change in the directive that conceals rather than reveals our differences. That textual change is apparently intended to signal a change of policy but not in a way that makes reasonably clear to the executive committee and the agent for the account what actual policy is intended. Please forgive the opinion that we have attained a semantic solution that does not set forth what it is that we want to do, and does not clearly enough tell our agent committee and agent bank what we have in mind.

If I were the agent bank, or the agent executive committee, charged with the responsibility of effecting the intentions of the full Committee, I would be fearful of so vague a directive. I would have no way of certainly proving that I had discharged my responsibilities and would thus court the danger of being second-guessed and falsely suspected, which is a human tendency in any event and almost inevitable when the principal is a committee and the agent is given a directive that conceals differences of opinion regarding the proper policy, or the proper extent of policy change, or both.

An important source of our difficulty in writing a directive, and an important source of danger to the agent executive committee and agent bank, I believe, is that we have been trying to use terms that are qualitative in nature. Qualitative terms have great use in certain fields, but I doubt if they are of much help to any of us here in saying what we want to do, unless, as Mr. Sproul has commendably attempted, we define those terms with considerable precision.

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Unfortunately, qualitative terms run into the difficulty that they must usually be defined by other terms that are qualitative in nature. Thus, we have many terms such as ease, active ease, firmness, restraint, mild restraint, and so on. It may be that these terms can be sufficiently defined that there is a minimal room for difference of opinion as to the policy intended, the authority delegated, and the discharge of the delegation; but I am now tempted to the opinion that we will understand our policy better, and make a better discharge of our responsibilities, within acceptable canons of delegation as between principal and agent, the more nearly we develop directives that avoid qualitative terms and approach directives in quantitative terms, whether free reserves, total reserves, money rates, or money-rate ranges.

On the economic situation, I share totally the views expressed by Mr. Sproul and Mr. Williams. I quarrel with nobody's conjectures, but it seems to me that we have the problem of taking up slack in the economy and of providing for a growth sufficient to provide for a rapidly expanding working population. I cannot see, by an examination of prices or employment levels, any real inflationary problem at this time. Therefore, I am extremely concerned, as I was in December, when I reluctantly voted to take the word "active" out of the policy directive as describing our policy of monetary ease, that any actual change in policy--whatever words we may use in the directive--be very tentative, very hesitant, very experimental, lest we send a pall over the economy.

EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON MAY 10, 1955

REC'D IN RECORDS SECTION

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Mr. Sproul said that the executive committee meeting on April 26 included a discussion of the directive issued by the full Committee, particularly of clause (b) instructing the executive committee to arrange for transactions with a view, among other things, "to fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion" It seemed clear at that time, Mr. Sproul said, as it had in the economic presentation this morning, that recovery had been completed. The Committee was no longer in the stage where it should be directing policy toward encouraging recovery; its problem now was to conduct open market operations and to administer credit policy so as to foster growth and stability in the economy by maintaining conditions in the money market which would avoid the development of unsustainable expansion. That was a shift in emphasis rather than in direction, but the executive committee had felt, Mr. Sproul said, that a meeting of the full Committee was needed to consider the situation for the immediate future and perhaps for the more distant future, and to consider the possible adoption of different wording for the instruction from the full Committee to the executive committee for carrying out open market operations.

* * * * *

Chairman Martin . . . suggested that the discussion be divided into two parts, the first to be consideration of Mr. Sproul's suggestion regarding a change in the wording of the directive from the full

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Committee to the executive committee so as to eliminate the instruction to encourage recovery, and the second to be consideration of the policy to be followed with respect to open market operations between now and the next meeting of the Committee.

Mr. Fulton referred to the wording of the directive and inquired whether the word "stability" was compatible with "fostering growth" in the economy; that is, whether "growth" was consistent with the objective of maintaining a stable level of economic activity.

Mr. Sproul responded that he felt "stable growth" was the kind of growth the Committee was trying to maintain, that it was not seeking a "static" economy. He could see nothing inconsistent between "stability" and "growth", if that meaning were given to the directive.

Chairman Martin suggested that "orderly growth" would mean a stable economy, and he added the comment that it was partly a matter of the meaning that the Committee wished to read into whatever words it used in writing its instructions.

Mr. Robertson stated that, in his opinion, we were not now in the stage where the Committee ought to be fostering growth. Growth was inherent in the whole situation, he said, and the Committee would be better off if it were to take out of its directive words indicating that operations should foster growth and were to leave only the direction that operations should foster stability. He agreed with Mr. Sproul's suggestion that words indicating that the Committee now wished to "encourage recovery" should be deleted from the directive, since this was no time for the Committee to be encouraging recovery. He also suggested that some other words in the present directive were unnecessary.

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Mr. Robertson then read a suggested revision of the first paragraph of the full Committee's directive to the executive committee which would instruct the executive committee to arrange for such transactions for the System account "as may be necessary or appropriate in the light of current and prospective economic conditions with a view (a) to relating the supply of funds to the needs of commerce and business, (b) to fostering stability in the economy by maintaining conditions in the money market which would avoid unsustainable expansion, (c) to correcting a disorderly situation in the Government securities market, and (d) to the practical administration of the account"

Chairman Martin invited other suggestions for change in the directive and Mr. Leach suggested consideration be given to amending clause (b) of the first paragraph of the Committee's directive to provide that the executive committee should arrange for such transactions for the System account "as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to fostering growth and stability in the economy by maintaining conditions in the money market that would be consistent with a high level of economic activity and that would avoid the development of unsustainable expansion, (c) to correcting a disorderly situation in the Government securities market, and (d) to the practical administration of the account"

Following a rereading of the suggestions by Messrs. Robertson and Leach, Chairman Martin stated that he would dislike removing from the directive the concept of "growth." This concept, he said, was

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inherent in stability, but his view was that it was desirable to have it set forth explicitly in the full Committee's directive.

Mr. Sproul stated that he too would be reluctant to see the policy directive leave out any reference to growth in the economy. He felt that a retention of some word to indicate that the Committee was conscious of the need for growth in the economy--a word which would reflect the Committee's concern with an interest in that aspect of economic activity--would be desirable.

Mr. Balderston stated that in view of the present amount of unemployment in the economy, he felt the Committee should look on growth as one of the problems with which the Committee was concerned, although he was not greatly concerned with the particular words used so long as the idea was in the directive. He also suggested that clause (c) of the full Committee's directive indicating that operations should be with a view "to correcting a disorderly situation in the Government securities market" implied the existence at this time of a disorderly situation, and he felt it would avoid any such implication if it were changed to read "to correcting disorderly situations in the Government securities market."

Mr. Shepardson agreed with the latter suggestion, stating that this clause had struck him as implying the current existence of a disorderly situation in the Government securities market which needed correction.

During the foregoing discussion Mr. Vardaman withdrew from the meeting.

Chairman Martin stated that the Committee should not overlook the fact that the directive of the full Committee would be published in the open market policy record. He also cautioned that changes should not be

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made which might be construed as having more significance than was intended.

There followed a further discussion of the suggestions that had been made during which Mr. Earhart inquired whether much if any change of policy was contemplated in the Committee's operations at the present time.

It was the consensus that little or no change in policy was contemplated at the present time but that a change in wording would be for the purpose of adapting the directive to the existing situation which no longer called for encouraging recovery.

After some further discussion, Chairman Martin suggested that each of the suggestions made seemed to be driving at the same point but that it was difficult for the Committee to rewrite a directive which had been carefully developed over a period of years, on the basis of various considerations, some of which were of a legal nature. The present directive, he noted, might contain implications which the Committee would not wish to change without thorough consideration, including advice of counsel and other members of the staff.

Mr. Thomas referred to Mr. Robertson's suggestion which would remove from the first part of the full Committee's directive the provision that operations be in the light of "the general credit situation of the country" leaving as a general standard only a reference to "current and prospective economic conditions." It was Mr. Thomas' view that the phrase referring to the general credit situation was put in the directive intentionally to indicate that consideration was to be given to qualitative factors in the credit picture, and he felt it might be unfortunate to remove from the directive the specific indication that the general credit

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situation was a consideration in determining operations for the System Account.

Mr. Mills concurred in this view, adding the comment that the phrase was a recognition of the statutory responsibilities of the Open Market Committee.

There was a further discussion of the several suggestions made, at the conclusion of which Chairman Martin suggested that the least change feasible be made in the language of the directive at this meeting, which would mean taking Mr. Sproul's suggestion that the words "encourage recovery and" be deleted from clause (b) of the directive that would be issued today, to make that clause read "to fostering growth and stability in the economy by maintaining conditions in the money market that would avoid the development of unsustainable expansion" He also suggested that Counsel be asked to consider the several suggestions made during this discussion, with a view to submitting for consideration at the next meeting of the full Committee whatever suggestions for change might seem to be desirable.

Chairman Martin's foregoing suggestions were approved unanimously.

EXCERPTS FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET SECTION
COMMITTEE ON JUNE 22, 1955

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Chairman Martin then called upon Mr. Vest for comment on a memorandum distributed under date of June 2, 1955 with respect to possible changes in the wording of the directive from the Federal Open Market Committee, discussed at the meeting on May 10, 1955. The memorandum reviewed the changes in wording which had been discussed at that meeting and suggested alternative language that might be used in the event the directive were to be changed. It stated, however, that it was the consensus of the staff that it would be preferable not to make a change in the form of the directive in the immediate future unless some further change of policy of the Committee should make necessary a change in the directive.

During the ensuing discussion, several members of the Committee indicated that they felt the alternative wording presented in Mr. Vest's memorandum of June 2 would be preferable to that now in the directive, but that they would not be disposed to make a change solely for the purpose of modifying language. Chairman Martin commented that the question was largely a matter of "tidying up" wording, that he did not have a strong feeling on the question, but that his judgment would be that while the revised wording would improve the language of the directive it would be preferable not to make a change unless some further change of policy of the Committee was being made.

Some additional changes in language were also suggested during the discussion, and Chairman Martin commented that he felt it was not practicable to draft language for a directive in meetings of this size. At the conclusion of the discussion, it was agreed that the revised language outlined in Mr. Vest's memorandum should not be incorporated in the directive at the present time but that it would be considered whenever a change in policy made some change in the wording of the directive necessary.

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EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON JUNE 22, 1955

Chairman Martin next referred to a memorandum from the Secretary with respect to suggested revisions in several continuing operating policies of the Committee as proposed by Mr. Robertson at the meeting on March 2, 1955, which was sent to the members of the Committee under date of June 3, 1955. At his request, Mr. Robertson commented upon the changes which he would propose be made in the continuing operating policies of the Committee, noting that his changes were intended to be changes of language which would clarify the intent of the Committee in its continuing statements of policy relating to support of Government securities, intervention in the Government securities market, operations in the short end of the market, operations during a period of Treasury financing, and operations for the purpose of providing or absorbing reserves. Chairman Martin then called upon Mr. Sproul who made a statement substantially as follows:

I am sure that you will all understand that I continue to be opposed to anything which tries narrowly to limit System or Open Market Committee responsibility solely to the volume of bank reserves, that I continue to oppose our renunciation of all or any transactions directly related to security issues involved in Treasury financings and the prohibition of swaps, and that I oppose the limiting of our transactions to short-term securities, preferably bills.

Whatever suggestions I have to make concerning Governor Robertson's proposed wording of our directives with respect to continuing operating policies are, therefore, relatively minor and probably gratuitous, since I probably will have to vote against the whole resolution.

Mr. Sproul then suggested some changes in language which he felt might be desirable if the revision proposed by Mr. Robertson were to be acted upon.

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Chairman Martin stated that he hesitated to have language of policy statements changed without having given an opportunity for all members of the Committee to study the suggested changes carefully. It was his view that the proposal made by Mr. Robertson as well as the suggestions made by Mr. Sproul should be made available to all members of the Committee before they were called upon to vote on a change.

Mr. Sproul said that he agreed with the position taken by Chairman Martin, that he felt it was desirable to have time to study the proposed language of the statements of operating policies, and that it was not practicable for the Committee as a whole to draft language in meetings such as this.

Following further discussion,
Chairman Martin's suggested procedure was approved unanimously.

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EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON JULY 12, 1955

Chairman Martin referred to the discussion at the meeting on June 22 of Mr. Robertson's suggestion for rewording statements of certain continuing operating policies of the Committee relating to support of Government securities, intervention in the Government securities market, operations in the short end of the market, operations during a period of a Treasury financing, and operations for the purpose of providing or absorbing reserves. The statements had been approved at the meeting of the Committee on March 2, 1955, and a memorandum had been sent to the members of the Committee by the Secretary under date of July 7, 1955, presenting Mr. Robertson's proposed rewording, as well as alternative language suggested by Mr. Sproul at the June 22 meeting.

The statements as approved March 2, 1955 and as presently in effect read as follows:

It is agreed that it is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

It is agreed that operations for the System account in the open market, other than repurchase agreements, be confined to short-term securities (except in the correction of disorderly markets) and that during a period of Treasury financing there be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange; and that these policies be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

It is agreed that transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction

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of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Mr. Robertson's suggested revision read as follows:

It is not now the policy of the Committee to support any specific pattern of prices and yields in the Government securities market, and transactions in the System Open Market Account shall be undertaken solely for the purpose of influencing the volume of bank reserves and thereby the costs and availability of credit, in order to promote economic growth and stability (including correction of disorderly markets).

Transactions for the System account in the open market shall be confined (except in correction of disorderly markets) to short-term securities, preferably bills, and shall not include offsetting purchases and sales of securities of different maturities.

During periods of Treasury financing there shall be no purchases for the System Open Market Account of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange.

Mr. Sproul's proposed alternative language would change the first two paragraphs of Mr. Robertson's suggested revision as follows:

It is not now the policy of the Committee to support any specific pattern of prices and yields in the Government securities market, and transactions in the open market shall be undertaken ~~solely~~ TO EFFECTUATE THE OBJECTIVES OF MONETARY AND CREDIT POLICY (INCLUDING CORRECTION OF DISORDERLY MARKETS) BY ~~for the purpose of~~ influencing the volume of bank reserves and thereby the costs and availability of credit, in order to ~~promote~~ FOSTER economic growth and stability (~~including correction of disorderly markets~~).

Transactions for the System account in the open market shall be confined (except in correction of disorderly markets) to short-term securities, preferably bills, and shall not include offsetting purchases or sales of securities of different maturities EXCEPT BILLS.

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Mr. Robertson stated that his proposal for rewording of these statements of continuing operating policies, which had first been adopted by the Committee in 1953, was for the purpose of clarifying the existing statements and eliminating language which may have caused misunderstanding or misinterpretation of the intent of the statements in the past. He then commented briefly on the proposed language of the statements and on reasons why he preferred language he had suggested to that suggested by Mr. Sproul at the meeting on June 22.

Mr. Sproul said that, as he had indicated three weeks ago, his suggestions were made in the interest of clarity, since he would have to vote "no" on the statements in anything like their present form. In explanation of his specific suggestions, he said:

1. It is desirable to retain the positive or affirmative statement of intent included in the policy statement of March 2, 1955, and to place it in immediate opposition to the negative statement. It is also desirable to tie in the correction of disorderly markets with the objectives of monetary and credit policy.

2. We should not seem to deny, by use of the word "solely", a secondary responsibility to coordinate credit policy with debt management, a responsibility which we actually respect whenever it is possible to do so without running wholly counter to credit policy.

3. The permissive swaps of bills would facilitate the practical administration of the account, contribute to the functioning of the bill market, and not transgress the general principle which led the majority of the Committee to prohibit swaps.

Several other suggestions for change in language were made by other members of the Committee and there followed a general discussion of the various suggestions made.

Chairman Martin commented that there had been a great deal of discussion of the wording of the Committee's directive and of language

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of the continuing operating policies. As he had indicated before, he did not feel it was practicable to convert meetings of this size into "drafting sessions". In his view, the language changes being suggested did not make a great deal of difference and to a considerable extent represented only a shifting of words.

Mr. Bryan stated that, as indicated by Mr. Sproul's comments, it would seem to be important to debate the substantive matter in the statements of continuing operating policies rather than the language. If the Committee reached a decision that it wished to follow certain policies, Mr. Bryan felt that the matter of language could be taken care of fairly readily.

Chairman Martin agreed with this point of view. He referred specifically to the prohibition in the existing statements of policy against "swap" transactions and asked Mr. Sproul under what circumstances he felt this prohibition should not apply to bills.

Mr. Sproul cited the example of the need of the System account, at times, for January and February bills which could be allowed to run off after the turn of the year, and he also cited a situation in which a corporation might have a need for bills maturing on October 21 in order to meet cash needs that day, but which found that the market was bare of bills maturing October 21 although bills maturing October 28 were in good supply. He could not see how the System account in swapping such near-money instruments would be interfering with arbitrage of the market and the relationships between Government securities of different maturities. To him, this would appear to be making the System portfolio

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contribute to the functioning of the bill market. In response to Chairman Martin's question as to how the System account would find out that the corporation needed the October 21 bills, Mr. Sproul stated that this information would come through dealers who were experiencing a demand for the October 21 bills. The System account would not be taking care of individual corporations; rather, the swaps would be for the purpose of improving the operation of the market. The transaction would, of course, be tied in with the operations of the System account under the credit policy in force.

Chairman Martin said that if the Committee was trying to acquire bills with specific maturities that aided in carrying out policy and an offer to sell such bills came to it through dealers, swapping from one maturity to another could be justified under some conditions. For example, if it wanted January maturities so that they could be permitted to run off when banks would need less reserves because of a return flow of currency and other seasonal factors, swaps might be all right. If, however, the swapping was a result of an attempt on the part of the System account to accommodate dealers or, through dealers, to accommodate individual corporations in adjusting their portfolios, he felt such transactions would put the Committee on dangerous ground. The central bank should keep its transactions on an impersonal basis. It was necessary for the Committee to keep this point in mind all the time, Chairman Martin said, and the Committee should be very careful about any approach which a dealer or a corporation might make for the purpose of showing how a transaction would benefit the System account or the Committee's operations. As Mr. Sproul had said, swaps of bills seemed

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to be a very small matter from the standpoint of affecting the rate relationships, but when it came to using the account to accommodate dealers the Committee would not be justified in risking the criticism that might result. In other words, the advantages of such transactions from the standpoint of monetary policy would be so slight that they might be much more than offset by the violation of the principle involved. It was Chairman Martin's thought that the discussion got back to Mr. Bryan's point that perhaps the Committee should have another full-dress debate on the entire substance of the principle involved in the prohibition against swaps.

Mr. Robertson stated that, as he had indicated earlier, his whole purpose in suggesting a revision in the wording of these statements was to eliminate some of the language which had been misunderstood or misconstrued before, and he had not intended to change the substance of the statements. If the revision as suggested or as modified in discussion did not achieve this purpose, he would be disposed to continue with the statements in the form in which they were approved at the meeting on March 2, 1955.

Chairman Martin said that there was enough disagreement in emphasis and in words to indicate that the Committee should pass over the matter for today and, if it desired, take another look at the statements at a later meeting with a view to deciding whether it desired any change at all in the wording approved at the meeting last March. He suggested, further, that if any of the members of the Committee or other Reserve Bank Presidents wished to have a further discussion of the matter and

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wished to suggest language for the statements, such suggestions be submitted to the Secretary in writing in order that the language could be made available for study prior to the meeting at which the matter was to be discussed.

No disagreement with Chairman Martin's suggestion was indicated.

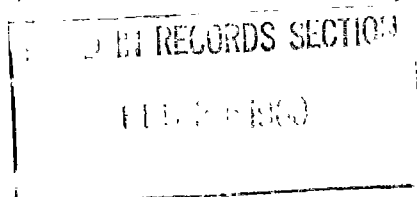
MINUTES OF FEDERAL OPEN MARKET COMMITTEE (IN PART)

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CONFIDENTIAL (F.R.)

The meeting then recessed and reconvened at 2:20 p.m. on March 4,
with the following attendance:



Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Erickson
Mr. Evans
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Szymczak
Mr. Vardaman (latter part of session)
Mr. Young, Alternate for Mr. Gidney

Mr. Riefler, Secretary
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Craft, Technical Consultant

Messrs. Gilbert, Leedy, and Williams, Alternate members
of the Federal Open Market Committee

Messrs. Bryan, Earhart, and Leach, Presidents of the
Federal Reserve Banks of Atlanta, San Francisco,
and Richmond, respectively.

Mr. Fulton, First Vice President of the Federal
Reserve Bank of Cleveland

Copies of the report of the ad hoc subcommittee on the Government securities market and of the appendices to the report had been sent to all members of the Federal Open Market Committee and to all Presidents of the Federal Reserve Banks who were not then members of the Federal Open Market Committee on December 29, 1952.

Chairman Martin made a statement substantially as follows:

I would like to start the meeting on the ad hoc subcommittee report on the Government securities market by giving a little background on the report. At the time of the meeting of the executive committee on January 27, 1953, I asked the Presidents of all the Reserve Banks to come in because we had the problem of Treasury financing at our door, and I thought it would be desirable to have them in then for a discussion of our relations with the Treasury. At this time I would like to discuss the report in terms of the System itself, and comment on how the report came about.

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The origin of the ad hoc subcommittee report started when I was still in the Treasury. I saw things from the Treasury side of the picture for about two years during which we had a pegged market in Government securities, which is quite different from a free market. There seemed to me to be quite a bit of misunderstanding in the Treasury as to the extent to which the Federal Reserve should be depended upon to make the market at all times, even if something got outside the peg. As we approached the period when the Treasury-Federal Reserve accord was put together, I am sure there was uppermost in the minds of some of the Treasury people the question whether it was ever going to be possible to have a really free market again. They felt that if we moved in that direction, it was something that would have to be pursued very carefully, and there was some feeling that with a Government debt of its present size, we could never again have confidence in a public market. You all recall the differences of the Treasury and the Federal Reserve and whether the market should be pegged at 1/32 above par and what would happen if it went to 99.

When the unpegging of Government securities came, I was again subjected to many comments on both sides of the picture as to whether we were handling the operation in the best way. It was during that period that was born within me the feeling that we in the System (I was now in the System) ought to make a real investigation of what the market process was, and how we interpreted that process. So I asked the full Committee at its meeting on May 17, 1951 to authorize a subcommittee to explore the operations of the market and our relation to the market. There were many changes taking place, there were refundings by the Treasury, and I was not sure of my judgments in all of the things going on at the time. I talked with many dealers and I found there was a good deal of criticism and doubt. I felt we should consider the question not in terms of any policy matters but in terms of the operations and whether there was developing a market with depth, breadth, and resiliency, to use the phrase that appears in the subcommittee report.

As time went on I thought we should have more experience with the unpegging of the market and the study was delayed until the spring of 1952 when the ad hoc subcommittee got to work. You know the work done, the framing of the questions and the outline, our bringing in of Mr. Craft as technical consultant, of how he presided at the conferences with the dealers, and of how he helped to determine what weight to put on facts and advices given by the dealers. He also gave those of us on the subcommittee an educational experience in dealing with the problem. The conferences with the dealers were extensive and we were slow in drawing our conclusions from those discussions. I do not want to say that any member of the subcommittee or of the staff who worked on the report was particularly influenced by the dealers, but

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it was important to get the reaction of the market to the operation as it was being conducted.

The initial part of the subcommittee report is directed particularly to discussing what the Government securities market is. We have tried to give some perspective in terms of the Federal Reserve System, but the philosophy to which we gradually moved was the desirability of minimizing intervention on the part of the Committee with the market.

We were very much helped in our report by receiving a document from the New York Bank which was studied by all of the members of the subcommittee. I have had individual comments from a number of the Presidents who have now had adequate time to study the ad hoc subcommittee report. I think I speak for all of the subcommittee in saying that none of us approaches this discussion with the feeling that we have the final answers to the problem with which we are struggling, or that this is a problem that you can put down in a one-two-three order. What we are certain of is that this is something that is always at the heart of System operations and that all of us are going to have to continue to study it.

We feel that we should have a minimum of secrecy in the market, but secrecy is different from privacy with which we don't want to interfere. The more people who understand the purposes and ends that the Federal Reserve is trying to achieve in dealing with a securities market that rolls on in time of war, when we use it as a means of inflation for paying for the war, the clearer the picture for all of us. And therefore the greater the chance that we will have depth, breadth, and resiliency in the securities market on a sound basis. You all know the inconsistencies we get into when we talk about a given objective, and how we are going to use the free market--but not too far. That is what we have been grappling with in this report. The subcommittee puts it forth as something we think is crucial in our thinking and objectives, but not as any indication we have come to a final point in our thinking.

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Chairman Martin then referred to the informal discussion at the time of the meeting of the executive committee on Tuesday, January 27, 1953, to which all members of the Board of Governors and all of the Presidents of the Federal Reserve Banks were invited and at which there had been considered that part of the report of the ad hoc subcommittee having to do with relations with the Treasury, as set out on pages 76-78 and on page 86 of the report. Chairman Martin said that, as he recalled the discussion on January 27, the language of a memorandum which Mr. Rouse read at that time on behalf of Mr. Sproul who was unable to attend that discussion, met the spirit of the recommendation of the subcommittee. What the subcommittee had in mind, the Chairman said, was that there should be understanding and cooperation with the Treasury in working on matters of mutual interest. Its specific recommendation in this respect was as follows:

F. Relations with the Treasury

The Subcommittee finds that the Federal Open Market Committee is frequently placed in an inconsistent position by its present practice of initiating advice to the Secretary of the Treasury with respect to decisions in the area of debt management. It recommends that the Committee inform the Secretary of the Treasury that henceforth it will refrain, as an official body, from initiating regularly proposals with respect to details of specific Treasury offerings, and will confine itself officially to providing information currently on its monetary policies and to counseling on the credit and monetary implications of debt management suggestions advanced for its consideration by the Treasury.

The memorandum of Mr. Sproul which had been read by Mr. Rouse on January 27 was as follows:

Like some of the other recommendations in the report, the recommendation with respect to relations with the Treasury is really a recognition of a changed situation; a situation in which we have shed as much as possible of the role of price fixing in the Government security market. So long as we were maintaining

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a pattern of rates, and so long as we were the established underwriters of all Treasury issues, there was a basis for our having some initiative with respect to the terms of the securities issued. The locus of primary responsibility had already been blurred. This was particularly so in view of the attitude of the Treasury toward monetary policy during this period.

Now that we are no longer pegging prices and are trying to shrink our underwriting function, the new approach to relations with the Treasury seems to me, in general, to be the appropriate one.

We do not want to become too doctrinaire about this matter of areas of responsibility, however. With a Federal debt which is so large a part of all debts, public and private, which permeates and dominates to some extent the whole securities market, and which has become a principal medium for adjusting portfolios of financial institutions, and the reserves of banks and others, we are not and won't be wholly free to administer credit policy without regard to the Government security market, and without regard to Treasury financing requirements. It won't be enough to say to the Treasury, here is the credit policy we are going to follow; now you manage the debt. These are areas of overlapping secondary responsibilities and opportunities.

While the Secretary of the Treasury can and should consult with whomever he wants, inside and outside the System, therefore, I don't think we should demote the Open Market Committee to the status of the ABA or the IBA or any other groups or individuals when it comes to debt management. Nor do I think we should commit ourselves to never taking the initiative. We are a statutory public body with public responsibilities in a field closely related to debt management, and there should be a maximum of coordination consistent with the primary responsibilities of the Treasury and the Committee.

It seems to me that it would be consistent with the spirit of the subcommittee recommendation, to have the Chairman and Vice Chairman of the Open Market Committee inform the Secretary of the Treasury

1. Of the desire of the Committee to work with him as closely as possible.
2. Of the intention of the Committee to keep him informed of the credit policies of the System, and particularly of open market policy.
3. Of the willingness of the Committee to have its representatives consult with him concerning credit policy or debt management problems whenever he requests such consultation.
4. Of the intention of the Committee to have its representatives bring to his attention, if and when it seems desirable, matters which may be of mutual interest.

I think this can be done quite naturally, orally with the new people at the Treasury, without in any way perpetuating the situation which the subcommittee seeks to correct.

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There was unanimous agreement that the above quoted recommendation in the report and the statement in Mr. Sproul's memorandum represented the Committee's general approach to the Treasury.

Chairman Martin next referred to recommendation E, Organization of the Open Market Committee, appearing on pages 85-86 of the subcommittee's report. This recommendation related to the "housekeeping" functions of the Committee and read as follows:

E. Organization of the Open Market Committee

The Subcommittee finds many anomalies in the structure and organization of the Federal Open Market Committee, particularly (a) the absence of a separate budget covering its operations, (b) the absence of a separate staff responsible only to the Committee, and (c) the delegation of the management function to an individual Federal Reserve Bank. It recommends that the Committee re-examine and review its present organization, and in particular that it consider the advantages and disadvantages that would ensue, were the Manager of the Open Market Account made directly responsible to the Federal Open Market Committee as a whole, and not, as at present, responsible through the Federal Reserve Bank of New York.

Chairman Martin said that, as the recommendation indicated, this problem had given the ad hoc subcommittee considerable difficulty; the subcommittee did not profess to have the answer and its report presented the question as a continuing problem which should be considered further. He suggested that this recommendation be eliminated from the discussion at this meeting and that the ad hoc subcommittee be continued and instructed to meet with Mr. Sproul at an appropriate and convenient time for the purpose of discussing with him the housekeeping arrangements covered in the report, with a view to determining whether it would be worth while to make further exploration of the subject.

Mr. Sproul stated that this procedure would be agreeable to him.

Thereupon, Chairman Martin's suggestion was approved unanimously.

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At Chairman Martin's suggestion, the Committee proceeded to a discussion of the other recommendations in the report of the ad hoc subcommittee as presented in the summary of conclusions and recommendations on pages 79-85 of the report under the four headings

- A. Relations with the Market
- B. Relations with Dealers
- C. Operating Techniques
- D. Federal Reserve Reports

These recommendations were discussed at three sessions of the Committee, including the one which convened at 2:20 p.m. on Wednesday, March 4, 1953 and which recessed at 4:50 that afternoon; at another session which commenced at 9:30 a.m. on Thursday, March 5, 1953, and recessed at 10:30 that morning; and at a final session which started at 12:10 p.m. on March 5 and lasted until 12:35 p.m. that day.

Mr. Vardaman joined the meeting on the afternoon of March 4 at 3:15 p.m., and the attendance at the three sessions mentioned was the same except that Mr. Evans withdrew at 4:45 p.m. on March 4; and Messrs. Mills, Powell, and Vardaman were not present at the final session which convened at 12:10 p.m. on March 5.

The summary of recommendations by the subcommittee, pertinent parts of the discussion of these recommendations, and the actions taken with respect to each are set forth below in the order in which the recommendations were presented in the ad hoc subcommittee's report.

A. Relations with the Market

Recommendations

The Subcommittee finds that a disconcerting degree of uncertainty exists among professional dealers and investors in Government securities with respect both to the occasions which the Federal Open Market Committee might consider appropriate for intervention and to the sector of the market in which such intervention

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might occur, an uncertainty that is detrimental to the development of depth, breadth, and resiliency of the market. In the judgment of the Subcommittee, this uncertainty can be eliminated by an assurance from the Federal Open Market Committee that henceforth it will intervene in the market, not to impose on the market any particular pattern of prices and yields but solely to effectuate the objectives of monetary and credit policy, and that it will confine such intervention to transactions in very short-term securities, preferably bills. The Subcommittee feels most strongly that it would be wise to give such an assurance.

The Subcommittee finds two outstanding commitments that may require intervention by the Federal Open Market Committee in other than the very short-term sectors of the market, and that may add to or subtract from reserve funds available to the market for purposes other than the pursuit of monetary policies directed toward financial equilibrium and economic stability. These commitments are, first, the directive to the management of the Open Market Account to "maintain orderly conditions" in the market for U. S. Government securities, and second, those arising from the practice of purchasing rights on maturing issues during periods of Treasury financing, and also on some of these occasions of purchasing when-issued securities and outstanding securities of comparable maturity to those being offered for cash or refunding.

With respect to the first of these commitments, the Subcommittee recommends that the Federal Open Market Committee amend its present directive to the executive committee by eliminating the phrase "to maintain orderly conditions in the Government securities market", and by substituting therefor an authorization to intervene when necessary "to correct a disorderly situation in the Government securities market." It has indicated in its report the conditions it would consider sufficiently disorderly to require correction. The Subcommittee recommends also that such intervention be initiated by the executive committee only on an affirmative vote after notification by the Manager of the Account of the existence of a situation requiring correction.

With respect to the second, the Subcommittee recommends that the Federal Open Market Committee ask the Treasury to work out new procedures for financing, and that as soon as practicable the Committee refrain, during a period of Treasury financing, from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange.

The Subcommittee feels that such qualifications as are implicit in these two recommendations would not seriously impair the constructive effect of a general assurance from the Committee that its intervention henceforth will be limited to the effectuation of monetary policies and will be executed in the very short sector of the market. It recommends most

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strongly that such assurance be given as soon as its existing commitments have been appropriately modified.

At Chairman Martin's request, Mr. Craft reviewed the comments in the subcommittee report and particularly in appendix "C" to the report relating to the proposed formulation of a general set of "ground rules" by the Federal Open Market Committee to cover its transactions in the market. Mr. Craft stated that even today many of the more sophisticated people in the Government securities business were still not convinced that the Federal Open Market Committee had abandoned the theory that the Government securities market must continue to be controlled within limits. This was illustrated, he said, by the fact that purchases by the Federal Reserve Bank of New York of Government securities for Treasury trust accounts might be the cause of rumors that the Open Market Committee was "back in the market". Mr. Craft emphasized what he conceived to be the advantages of confining transactions for the System account normally to Treasury bills as a means of permitting greater flexibility in open market account operations, with a minimum of disturbance to prices and yields on longer-term securities. He said that would permit the market (a) to reflect the natural forces of demand and supply and (b) to furnish a signal of the effectiveness of credit policy aimed primarily at the volume and availability of bank reserves. He suggested that in practice acquisition by the Federal Reserve System of any issues except Treasury bills tended to result in a permanently frozen System portfolio and served to restrict flexibility in open market operations for the purpose of effectuating general credit policies. He felt that adoption of a guiding principle that, for normal open market operations, transactions should be confined to Treasury bills would go far toward eliminating the handicaps that attach to intervention by the

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System account in the market. Mr. Craft also brought out the view that it was desirable to limit intervention by the System outside the bill market to periods when it seemed desirable to correct disorderly conditions in the market. It was his view that this was desirable so as to avoid imposing on the market any particular pattern of prices and yields, and he felt that assurances along the lines recommended in the subcommittee's report should be given by making known to the dealers the "ground rules" which would govern System operations in the market. This would mean, he said, that better market behavior could be expected in the technical sense, and the results of credit and monetary policy could be appraised more accurately. While he recognized that Federal Reserve credit policies must be based on many considerations and that they could not be governed by a rigid formula, it was his belief that such policies could best be effectuated under a set of simple rules that are fully understood by all participants in the market.

Following Mr. Craft's statement, at Chairman Martin's request, Mr. Sproul commented on the proposed "ground rules" suggested by the report and on the proposal that some sort of assurance be given to the market by making these general rules known.

Mr. Sproul said that the suggestion for making such ground rules public involved the question whether System operations should be confined to the short area of the market. He felt that such suggestions were based on what had happened in the past, when the System was supporting the Government securities market, and on the situation existing at the moment, where the market apparently still has not, after two years, found out what it might have been expected to find out by observing the System's performance. Formulation and announcement of ground rules along the lines suggested showed, perhaps, too much concern for the dealers in Government securities who naturally

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and properly are primarily interested in the protection of their capital and making a profit on their operations. He thought this situation could not be improved, having regard for our primary interest which is credit policy, by publication of "ground rules"; that a "norm" could be established only by what the Committee did over a period of time. He said that the principal reason why the Government securities market did not have depth, breadth, and resiliency at all times is now due to uncertainties regarding general credit policy and the Treasury's debt management program, rather than because of any concern that the Federal Reserve might intervene in the market, and pointed to the present condition in the market as supporting this view. What the market wants to know, he said, is whether interest rates and, therefore, security prices are going up or down; this is tied in with the whole question of credit policy.

With respect to the proposal for confining open market operations to the short-term sector of the market, Mr. Sproul said that there might be times when the System would wish to intervene in other than the short-term area in order to get direct effects on the availability and cost of credit in the capital market or the mortgage market, as a means of effectuating credit policy. He did not agree that acquisition of longer term securities necessarily meant that the System account would be frozen in as a holder of such securities. And quite apart from what the Committee might decide as a matter of current policy on the suggestion that operations be confined to the short-term area, Mr. Sproul said that public assurance as to the continuance of this policy could not be given to the market, as proposed, without misinterpretation and misunderstanding and without seeming to bind future open market committees, which could not be bound by statements

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made by predecessor committees.

In response to a question from Chairman Martin, Mr. Sproul stated that at the present time he thought it was desirable to operate only in the short-term sector of the market as far as that was possible, but that he could not say what would be desirable next year or two years from now. He could conceive of wanting to operate in the long-term market in terms of credit policy because of the possible effect on interest rates and the availability of funds for investment. He illustrated this by suggesting that a more direct effect might be had on mortgage rates in this manner than by operating in the short-term market. While at the present time there was no argument in the Open Market Committee, that dealing in the short-term market met the needs of the Committee, Mr. Sproul felt that it was unnecessary and undesirable to try to give assurance by publishing "ground rules", for all time to come on this or any other point having to do with credit policy. He did not think the Committee should issue any statement or ground rules which might seem to but could not tie the hands of future committees; and he did not feel assurance of the type suggested in the subcommittee's report was necessary in order to get the desired depth, breadth, and resiliency in the market. This would come, so far as we have an influence, he said, from our actions over a period of time; not from public statements. We should always remember, he said, that while the proper functioning of the Government securities market is most important to the Federal Reserve System, the primary concern of the Federal Open Market Committee is credit policy and the Committee should not try to give assurances which might result in a frozen credit policy.

Chairman Martin said that the idea that the Open Market Committee

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should carry on operations having to do with the supply of reserves by operating in the long-term market was entirely inconsistent with having a good Government securities market, that a dealer could not be expected to stay in the business if he felt that the Federal Reserve in its judgment would attempt to effectuate credit policy by intervening in the long-term market. He said that he was not interested in the Government securities dealer per se but that he was greatly interested in the Government securities market, that over a period of time there must be a reasonably good Government securities market in order that the Committee might effectuate its credit policies, and that while general credit policies which might be adopted by the Committee would affect prices and yields on Government securities, the additional uncertainties that might be caused by the threat of Committee operations on a large scale in long-term Government securities might destroy the market.

Mr. Sproul thought dealers could and would stay in business even though the possibility of Federal Reserve intervention in the long-term market continued; that the subcommittee report made too much of the difference between changes in prices and yields in the long-term market brought about by intervention in the short-term market and similar changes brought about by direct intervention in the long-term market. He also said that he was talking about preserving freedom of action for the Committee in the future. He thought the Committee could say, in season and out, that its purpose and policy now is to effectuate credit policies through supplying or absorbing reserves and not to support any pattern of rates or prices or yields in the Government securities market, but he did not think the Committee could give any other assurance which would be worth while in terms

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of its effect in the market or in terms of what the Committee might or might not do at some future time.

Mr. Bryan stated that there was a fundamental difference between operating in the short-term and the long-term market, that when the Committee operated directly in the long-term market for the purpose of affecting prices it was substituting its judgment for that of the market as to what such interest rates ought to be.

Mr. Sproul responded that whenever the Committee put funds into or took funds out of the market it necessarily affected interest rates and that the Committee must have a judgment as to how its operations would affect the costs as well as the availability of credit whether it operated indirectly or directly on long-term rates. Any form of assurance as to how the Committee would operate in the future would, Mr. Sproul said, tend to bring about a frozen credit policy.

Mr. Szymczak brought up the question that had been referred to by Mr. Craft regarding uncertainties caused in the market by purchases by the Federal Reserve Bank of New York of long-term Government securities for Treasury trust accounts. He wondered whether such purchases should not be distinguished from those made for the System account for the purpose of effectuating credit policy.

Mr. Sproul responded that if it seemed desirable to separate those transactions, there was no reason why that could not be done.

In a further comment on relations with the market, Mr. Szymczak said that there were two questions involved -- the extent to which the Committee might need to operate in the market, and the extent to which it should inform the market where and how it was going to operate. On the first

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question, his own feeling was that the Federal Open Market Committee should go into intermediate and longer-term securities only when that was necessary to correct a disorderly market condition. On the second question, Mr. Szymczak could see no good reason for not informing the market of the general basis on which the Committee would operate.

Chairman Martin stated that he did not think there could ever be a contractual sort of assurance given to the Government securities market by anybody but that it seemed to him to be an unnecessary, disturbing element for those in the Government securities market to feel that such an important element as the open market account might step in and operate directly in long-term securities because it decided to do so. He thought that the Committee would not be making a contract and would be free to change its credit policy on any day if it gave to the market a statement of the general framework within which it intended to operate. The financial community should have such an assurance, he said; there was a misunderstanding of the extent to which the Open Market Committee might "play God".

Mr. Robertson suggested that it might be helpful to have a draft of a statement giving assurance along the lines outlined by Chairman Martin as a means of helping in further consideration of this question, to which Chairman Martin responded that he felt it would be premature at this time to draft such a statement, that what the Committee was seeking was fuller understanding of the market, that it was clear that the whole question needed further study, and that in the course of such a study it might be desirable to draft a statement such as Mr. Robertson suggested.

In further discussion, Mr. Mills said that it was his understanding that the difference of opinion on the proposed ground rules was on

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whether the Committee should give public assurance, that he understood it to be the sense of the group that it agreed with the philosophy of the ground rules, that operation in the short end of the market is the practice that is now being followed, and that this practice should justifiably be continued into the future unless there is a change in the market or in the policy of the Committee.

Chairman Martin commented that Mr. Mills had stated clearly and effectively his understanding of the Committee's views.

Mr. Sproul agreed with Mr. Mills, assuming that he was referring to the present situation in the market and present open market policy, and not to a permanent philosophy with respect to nonintervention in the long-term market.

There was further discussion of the various suggestions made in the subcommittee's recommendations regarding relations with the market in the course of which unanimous agreement was reached on the following points:

1. Under present conditions, operations for the System account should be confined to the short end of the market (not including correction of disorderly markets).

2. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

3. Further study should be given by the ad hoc subcommittee to the suggestion that the Committee adopt a continuing policy of confining its intervention in the market to the short-term area, and to the questions whether some type of assurance regarding the Committee's procedure in this respect should be given and, if so, how such assurance should be made available.

4. The directive of the Federal Open Market Committee to the executive committee should be changed to eliminate the phrase regarding the maintenance of orderly conditions in the

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Government security market, and there should be substituted therefor an authorization to intervene when necessary "to correct a disorderly situation in the Government securities market". In approving this change, it was understood that intervention to correct such a situation would be initiated only upon the affirmative vote of the executive committee after the existence of a situation seeming to require correction had come to its attention through notice from the manager of the account or otherwise, but it was recognized that in the event of an emergency, such as an international crisis, it might not be possible to canvass all members of the executive committee before initiating such intervention.

5. It was understood that, pending further study and further action by the Committee, the Committee approved the subcommittee's recommendation that it should refrain during a period of Treasury financing from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange.

B. Relations with Dealers

Recommendation

The subcommittee finds no present or prospective justification for continuing the present system of rigid qualifications for dealers with whom the account will transact business, and recommends that the system be dropped.

Chairman Martin stated that the subcommittee felt it would be desirable to eliminate the dealer qualification system as a means of removing any basis for the charge that the Open Market Committee favored certain dealers in Government securities in carrying on its transactions. The subcommittee's thought was that if this were done the manager of the account would then do business on the basis of the best price available in the market.

Mr. Sproul stated that he felt the most satisfactory situation was not to have the present rigid qualification system but to have the manager of the System account given discretion to do business with whatever dealers seemed best suited to carry out the policy of the Committee. He said that as a matter of practical administration as well as of policy it would not

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be possible for the account to do business with anyone who might offer to sell securities to or buy securities from it and that, therefore, the manager of the account should have discretion.

Chairman Martin said that the subcommittee recognized that the manager of the account would have to have some discretion but that it felt that no opprobrium would be placed on anyone if dealings were on the basis of the best price, assuming the dealer was responsible.

Mr. Sproul stated that he agreed with this within the limits of practical administration in ascertaining the best price, and that the logical conclusion was to put the whole matter at the discretion of the manager of the account.

There followed a long discussion of what criteria might be used to guide the manager of the account in his dealings, Mr. Rouse expressing the view that there might be some dealers for whom he would have "personal distrust", or who were not "personally respectable", and that he would not wish to do business with such dealers.

Mr. Sproul did not feel that the element of "personal trust" or "personal respectability" should have anything to do with trading, that it was a question of whether the dealer was "responsible" in the sense that he could carry out commitments.

Chairman Martin stated that what the subcommittee was trying to do was to get away from saying that any individual or firm was precluded from access to the trading desk who was otherwise contributing to the Government securities market. He did not think the account should undertake to do business with someone who only occasionally got into the Government securities market; he did feel that the firm or individual must be in the business

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of dealing in Government securities, and that the executive committee could deal with any problems that might arise in this connection.

Following the discussion, unanimous approval was given to the recommendation that the present system of rigid qualifications for dealers with whom the account will transact business be abandoned, with the understanding that henceforth transactions would be carried on with any persons or firms actually engaged in the business of dealing in Government securities, and that price would be the main criterion for such transactions.

C. Operating techniques

Recommendations

The subcommittee finds that many of the present operating techniques of the account are upsetting to the smooth functioning of the market. In general these techniques were prescribed by the Federal Open Market Committee at a time when it was attempting to peg market prices and yields of United States Government securities. With respect to market techniques, the subcommittee recommends specifically:

- (a) That "reluctant buying" be completely abandoned, and that supporting operations in the market, if undertaken at all, be executed through a technique of aggressive rather than reluctant purchasing.

In response to a question by Chairman Martin, Mr. Rouse stated that the reluctant buying technique had been abandoned but that in his opinion it had been useful in the past and that there might come a time in the future when it would again be useful. In Mr. Rouse's opinion, that technique had been more useful during the period of pegging of Government securities prices than a procedure of "aggressive buying", since the Committee had to consider its willingness to put reserves in the market. On the whole, however, Mr. Rouse felt that it was an undesirable practice and that under present conditions it was desirable to abandon the reluctant buying technique.

Mr. Sproul stated that he would dislike to see the Committee commit itself to a policy of "aggressive buying", rather than "reluctant buying",

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at all times in the future, and that while he had no objection to abandoning reluctant buying--it had already been abandoned--he felt there was no need to go to the other extreme of saying that the Committee would at all times in the future engage in aggressive buying.

Mr. Powell questioned whether the term "aggressive buying" was what was intended for the future, asking whether abandonment of "reluctant buying" did not mean that the Committee would follow "normal" buying procedures.

Mr. Szymczak said that, as he understood it, "aggressive" purchasing had nothing to do with credit policy, that it referred only to the operating technique. He recalled that "reluctant" purchasing had developed at a time when the System was supporting and, later, pegging the Government bond market, and that it had been abandoned with the abandonment of the supports in a pegged market. He assumed that the technique of "aggressive" purchasing would apply to the operating procedure when the Committee found it necessary to go into the market to correct a disorderly condition. In other words, the operating technique would be not to allow a disturbing overhang in the market, but to take a position to carry out whatever the Committee policy was at the time.

Chairman Martin said that as he understood it, Mr. Powell would say that this was "normal" purchasing, and there was no indication of disagreement with this comment.

Following a brief further discussion, it was agreed unanimously that having abandoned the technique of reluctant buying, which was used at times during the period of supported markets, it should not be resumed without further consideration by the executive committee of the Federal Open Market Committee.

- (b) The subcommittee recommends that agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis.

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Mr. Rouse expressed the view that it was much more satisfactory to work with dealers as principals rather than as agents, although there might be times in the future when the Committee would wish to revert to an agency basis. He added that transactions were now conducted with dealers as principals as they were all of a short-term character.

Thereupon, unanimous approval was given to the foregoing recommendation that agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis, with the understanding that if it seemed desirable to do so at some future time the executive committee would consider a proposal to revert to an agency basis.

- (c) The subcommittee recommends that if rights are acquired during refundings they be purchased from dealers without regard to whether or not they come from the dealers' position.

Approved unanimously, it being noted that while the Committee was in full agreement with the spirit of this recommendation, it was inoperative at the present time in view of the fact that, as recorded under No. 5 on page 38 of these minutes, the Committee, pending further study and further action by it, had agreed that it would refrain from purchasing rights on maturing issues during periods of Treasury financings.

- (d) The subcommittee recommends that refusal to buy bills acquired by dealers on a cash basis be discontinued.

Approved unanimously, it being understood that the practice referred to had already been discontinued.

- (e) The subcommittee recommends that nonbank dealers be informed adequately in advance when repurchase facilities will be made available.

Approved unanimously, it being understood that the adequacy of the advance notice would depend on the availability of information indicating to the manager of the System open market account the need for such facilities.

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- (f) The subcommittee recommends that repurchase facilities at an appropriate rate and with appropriate limitation as to volume be made regularly available to nonbank dealers over weekends.

Mr. Rouse said that he had very little sympathy with this proposal, that he felt it would be putting the Committee right back in the business of pegging Government securities to a certain extent. He thought money for the purpose indicated should be obtained through the market as a normal thing and that it should not be available regularly from the Federal Reserve System.

Mr. Mills wondered whether such a procedure would not work out much the same as the discount mechanism does with banks so that nonbank dealers would thus have access to funds the same as bank dealers in Government securities now have access to such funds through discounting. Mr. Mills also suggested that such an arrangement would not put an undesirably large amount of reserve funds into the market and that the procedure would not impose any particular problem on the Open Market Committee.

Mr. Sproul said that it was a question whether the System put credit policy ahead of improving the Government securities market. He felt credit policy should be put first, that this was the reason the System had gotten out from under the peg and away from the position of making reserve funds available to banks at their initiative, rather than at the initiative of the Federal Reserve. Mr. Sproul added that whenever dealers really needed funds over weekends they should get them but it was not desirable to arrange for them to have automatic access to Federal Reserve credit.

Chairman Martin agreed that it was credit policy the Committee was primarily concerned with, but he said that the Committee should not be shortsighted to the extent that it would disregard something that might have a significant bearing on the Government securities market. He thought

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Careful consideration should be given to the relative position of bank and nonbank dealers in being able to carry bills, having in mind that modest help to the bill market in this manner might be warranted.

Mr. Sproul responded that if the initiative were retained by the System and discretion were provided by an action of the Committee, the dealers should get funds under repurchase agreements in circumstances where they could not get them outside for the purpose of carrying bills over weekends. However, for the Committee to announce that any dealer could come in over any weekend and automatically obtain funds from the Federal Reserve would relieve the banks of the necessity of taking care of dealers and would set a bad precedent, regardless of whether the amount of credit thus extended was small or large.

Mr. Szymczak doubted the advisability of making Federal Reserve credit automatically available to nonbank dealers through repurchase agreements, just as he felt it was undesirable to make Federal Reserve credit available to member banks at their initiative. He felt, however, that dealers had a right to expect to be able to get funds through repurchase agreements when they needed them.

Mr. Craft said that he was concerned about the increasing reluctance of dealers to bid in the weekly offerings of bills, that those with whom the subcommittee conferred last summer complained unanimously regarding their inability to carry a position in bills.

Mr. Sproul suggested the possibility of the Treasury changing the days of the week on which bills are bid for and delivered so that the dealer problem of carrying bills over the weekend might not bulk so large.

Chairman Martin said that there was a real problem in connection with this recommendation of the subcommittee and suggested that the

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subcommittee be requested to review it further in terms of the problem of orderly markets and of making reserve funds available on an automatic basis.

This suggestion was approved unanimously.

Recommendations

The subcommittee finds that relations between the Open Market Account and the dealers are not as impersonal as is desirable now that the Committee is no longer trying to peg prices and yields on Government securities by maintaining a tight rein on the activities of dealers.

- (a) It recommends that the Open Market Account make known to the dealers the "ground rules" which henceforth will govern the occasions for its transactions with dealers.

It was agreed unanimously that, as indicated by the action taken in connection with the subcommittee's recommendation as to giving an assurance under "Relations with the Market", further study should be given to this recommendation. In taking this action, it was understood that the subcommittee would consider the matter in terms of what ground rules might be agreed upon, and whether and how such rules might be made known.

Mr. Szymczak stated that his understanding of the foregoing action was that there had been conclusive agreement that, unless changed by the Committee, operations would be conducted in accordance with the practices set forth in the "ground rules"; this action, therefore, related to how the import of such rules should be made known to the public.

- (b) The subcommittee recommends that the individual morning dealer conference be abandoned.

Mr. Rouse stated that he could not understand the reason for the suggestion that the morning conferences be discontinued, that they were more convenient for the dealers and for the representatives of the account than if appointments were not made, that the conferences had been useful to both the manager of the account and the dealers, that no dealer had to attend a conference, that the dealers had been the ones who had sought the meetings

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in this manner. Mr. Rouse went on to say that while he found the conferences very useful, he would not want any dealer to feel that he was not being treated fairly, and that he would be glad to terminate the present arrangements for the conferences and permit them to start over if the dealers wanted them on their own initiative.

Thereupon, unanimous approval was given to the subcommittee's recommendation, it being understood that if any dealers wished to continue the morning conference, it would be on the dealers' initiative.

- (c) The subcommittee recommends that the information obtained by the trading desk from dealers be so restricted as to eliminate the possibility of identification, directly or by inference, of individual customers.

This recommendation was approved unanimously, Mr. Rouse noting that the recommended practice was one which he had been trying to follow.

- (d) The subcommittee recommends that reports on individual dealer positions and activity be collected by an officer of the System other than the manager of the account, that the individual reports be kept confidential, and that only aggregates compiled from the individual dealer reports be disclosed to the manager of the account.

At Chairman Martin's request, Mr. Rouse commented on this proposal stating that to the best of his knowledge the information received had never been used to the disadvantage of any dealer, that the information on individual dealers' positions was most helpful to the manager of the account and that to take it from him would be like asking him to handle the account "with one hand tied behind him", that the information was supplied voluntarily, and that he felt it should continue to be made available to the account manager.

In response to a question from Mr. Sproul as to whether there was widespread objection from dealers to giving this information, Chairman Martin said that the recommendation was not based on the views of dealers so much as the feeling of the subcommittee that it would be a protection to the manager of the account against any charge of misuse of the information.

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Mr. Sproul then said the information is most useful from time to time, and that aggregates which might conceal individual long and short positions would not be so useful and could be misleading. He suggested that, if the information were furnished on a voluntary basis, there should be no objection to its collection, and Chairman Martin agreed.

Mr. Bryan felt that it was important to have the information available in aggregate form and that there might be a real question whether voluntary reports would provide satisfactory totals.

Mr. Sproul suggested that it be understood that, if the dealers were willing to furnish the reports on a voluntary basis, there would be no objection to continuing to collect the information in that manner.

Mr. Sproul's suggestion was approved unanimously. In taking this action, it was understood that if the reports received on a voluntary basis did not seem to provide satisfactory aggregates, further study would be given by the executive committee to the question of the reporting procedure.

- (e) The subcommittee recommends that the present practice of asking dealers to report transactions currently during the trading day in sufficient detail to permit the computation of current individual dealer transactions sheets be discontinued.

Mr. Rouse stated that it was not and had not been the practice of the New York Bank to ask dealers to report during the trading day in sufficient detail to permit computations of current individual dealer transactions. He said that traders on the desk do receive information on supplies of securities in the market which goes to the manager of the account and to the Committee's staff in Washington as a basis for judging the state of the market. Sometimes that information indicates that supplies are from savings banks or commercial banks, but ordinarily the information is of a general nature only.

There was unanimous agreement with Chairman Martin's statement that there appeared to be no objection to the practice described by Mr. Rouse; and that the practice referred to in the subcommittee's recommendation should be avoided.

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Recommendation

The subcommittee finds that there is a serious gap in the structure of the money market as it affects the functioning of the market for Government securities. Continuously in recent months, funds available to dealers to carry portfolios have been inadequate in volume and available only at rates higher than the yield of their portfolios. This deficiency could not exist so continuously in a central money market equipped (1) to attract temporary idle funds from over the country to New York, and (2) to make these funds available on call to dealers in the money market. The subcommittee recommends that the feasibility of re-establishing a central call money post for dealers be explored.

Approved unanimously.

D. Federal Reserve Reports

Recommendation

The subcommittee finds that the Federal Reserve System can improve the data which it makes available to inform the market on its operations. It recommends that the following information be shown henceforth on the weekly condition statement of the Federal Reserve Banks:

- (a) Securities held on repurchase agreement.
- (b) Special certificates of indebtedness held by the System.
- (c) Weekly averages of member bank borrowing.

In response to a question by Mr. Rouse, Chairman Martin and Mr. Craft stated that the idea of publishing such additional information had the general approval of the dealers with whom the subcommittee conferred last summer on the grounds that the segregation of repurchase figures would be helpful and should be a part of the information regularly made available through System publications. It was stated, however, that one of the 17 dealers who commented on the suggestion expressed hesitancy in having the information on repurchase agreements published, his feeling being that publication of the data might be open to misinterpretation.

Mr. Sproul stated that if the dealers did not object to disclosure of the extent to which they were using Federal Reserve credit in carrying bills, the Committee should not object.

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Mr. Robertson felt that the information should be made public even though there were objections on the part of some of the dealers.

Thereupon, the subcommittee's recommendations regarding the weekly condition statement of the Federal Reserve Banks were approved unanimously.

This concluded the consideration of the recommendations in the report of the ad hoc subcommittee. In a discussion of the procedure to be followed in connection with the actions that had been taken, Chairman Martin suggested that the staff be instructed to review the actions and report on the steps that would be necessary in the way of changing directives or issuing new directives to carry out changes in procedures agreed upon. It was understood that this procedure would be followed.

Mr. Bryan stated that he was somewhat disappointed in the discussion of the subcommittee's report because he felt there had been an inadequate discussion of the problems and underlying philosophies involved. He said that he might wish to send to the individual members of the Committee a memorandum expressing his personal views on some of the underlying points which he felt had not been clearly or completely dealt with.

Chairman Martin stated that the Committee would be glad to receive from Mr. Bryan or any other member of the Committee or any President of a Federal Reserve Bank who was not now a member of the Committee additional comments he might wish to submit in writing.

Chairman Martin, in referring to the assistance which Mr. Craft had given to the ad hoc subcommittee in its work, stated that he would like to have it understood that Mr. Craft would be continued as a consultant so that his services would be available in the future work of the subcommittee from time to time.

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This suggestion was approved unanimously and, at Mr. Evans' suggestion, it was agreed that Chairman Martin should express the appreciation of the Federal Open Market Committee to Mr. Craft's employer, Guaranty Trust Company of New York, for the services he had given in connection with the study of the Government securities market.

Mr. Robertson suggested that it be understood that recommendations in the subcommittee report on which final action had not been taken be studied further by the subcommittee and brought before the Federal Open Market Committee. It was understood that this suggestion would be carried out.

Thereupon the meeting adjourned.

Secretary

~~CONFIDENTIAL~~ (F.R.)

The following memorandum on issues of "bills only" was prepared in the Treasury as a briefing document for Secretary Anderson in connection with the interest ceiling hearings before the House and Means Committee (Executive Session).

RECORDS SECTION

FEB 25 1960

Bills Only Policy

Argument

The Federal Reserve "bills only" policy should be abandoned.

Comments

(1) The so-called "bills only" policy is essentially an operating technique for creating or absorbing bank reserves with a minimum direct effect on interest rates and prices of Government securities. In view of the fact that by far the greater portion of the System's operations are to meet short-run changes in the reserve position of the banking system, it is clearly desirable that most of the System's open market operations be confined to short-term securities.

(2) Federal Reserve officials have stated that this operating procedure is not an inviolable technique; that they stand ready to deal in longer-term securities--and, indeed, have done so--when conditions are appropriate. Four such instances included purchases in November 1955 and July 1958 in connection with Treasury financings, and in August 1959 and February 1960, in connection with Treasury refundings in which the System elected to exchange a portion of its holdings for the longer of two securities offered by the Treasury.

(3) To those who would argue that additional dealings in longer-term securities would be desirable, one might appropriately inquire as to the specific circumstances. There are some who would advocate that the System should under current conditions purchase long-term Government

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bonds and sell shorter-term issues, in order to promote lower long-term interest rates without contributing to a net increase in bank reserves. To these observers I would point out that such operations would further distort the interest-rate structure, which has already been distorted by heavy Treasury borrowing on short term which has helped push most short-term interest rates higher than long-term rates, as a result of the interest rate ceiling. It would not seem appropriate to me to attempt to ease long-term interest rates by increasing the already heavy pressure on the short-term market, thereby favoring long-term borrowers and discriminating against borrowers in short-term markets. Moreover, this technique could only serve to pull more long-term investment money into short-term securities, thereby impeding the flow of funds into business expansion (which is so important to long-term economic growth), State and local government projects, and into mortgages.

(4) I am informed that there is a sizable group of economists who would advocate the reverse of this procedure; namely, that the Federal Reserve should stand ready to sell long-term bonds in periods of strong business activity, in order to dampen a capital spending boom. But surely, in view of the pressing need for achieving some lengthening of the maturity of the public debt, it would be preferable for the Treasury to engage in whatever modest amount of cash sales of long-term bonds would be appropriate during a period of strong business activity, rather than for the Federal Reserve to saturate such market demand as may exist for long-term bonds.

(5) There are some who would argue that the Federal Reserve should have purchased a sizable amount of long-term bonds during the recession

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of 1957-58. Admittedly, this was a close question of judgment at the time. But hindsight seems clearly to have vindicated the decision of the Federal Reserve not to purchase long-term securities. It is very doubtful that recovery would have come any quicker than it did, or have been any stronger. And it seems clear that System purchases of bonds under those conditions by pushing bond prices even higher, would have engendered an even greater degree of speculation in the Government bond market than actually developed and, as we all know, such speculation was especially severe.

(6) Mr. Chairman, there is no doubt in my mind whatsoever that the Federal Open Market Committee stands ready at all times to deal in securities of any maturity, and that the so-called "bills only" policy has been misinterpreted as an ironclad rule prohibiting such operations. Thus the pragmatic question is: When would such operations be appropriate and desirable? Reviewing the history of the past few years, it seems clear to me that when such operations were appropriate, the System was quite willing to engage in them. I think the same will be true in the future.

Redraft of Present Statement of Continuing Operating Policies of the Federal Open Market Committee

a. It is the policy of the Committee to ~~intervene in the~~ Government securities market only for the purpose of providing or absorbing reserves in order to effectuate the objectives of monetary and credit policy (except when action is necessary for the correction of disorderly markets). It is not the policy of the Committee to support any pattern of prices and yields in the Government securities market.

REC'D IN RECORDS SECTION
FEB 2 1960

b. Except in the correction of disorderly markets, and in such other instances as are specifically authorized by the Open Market Committee, operations for the System Account in the open market shall be confined to short-term securities where there will be the least interference with market forces, and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange.

c. Transactions for the System Account in the open market shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio.

d. Such policies are general guides and therefore may be superseded or modified at any time by further action of the Federal Open Market Committee.

IN RECORDS SECTION

Redraft of Present Statement of Continuing Operating Policies of the Federal Open Market Committee

FEB 25 1960

a. It is the policy of the Committee to intervene in the Government securities market only for the purpose of providing or absorbing reserves in order to effectuate the objectives of monetary and credit policy (except when action is necessary for the correction of disorderly markets).
It is not the policy of the Committee to support any pattern of prices and yields in the Government securities market.7

b. Except in the correction of disorderly markets, and in such other instances as are specifically authorized by the Open Market Committee, operations for the System Account in the open market shall be confined to short-term securities where there will be the least interference with market forces, and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange.

c. Transactions for the System Account in the open market shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio.

d. Such policies are general guides and therefore may be superseded or modified at any time by further action of the Federal Open Market Committee.

JLR:2/24/60

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Proposed Revised Statement of
Continuing Operating Policies
of the Federal Open Market Committee

REC'D IN RECORDS SECTION

FEB 25 1960

1. Open market operations authorized by the Committee in the Government securities market are carried out with the goal of furnishing the banking system with reserves which will permit it to provide monetary resources in amounts appropriate to a healthy, growing economy possessed of an honest unit of currency.

2. Open market operations shall, with the exception discussed below, be conducted entirely in outstanding securities of less than one year maturity, not involved in an exchange offer, and not of a maturity comparable to a maturity involved in an exchange offer, except upon express authority of the Committee.

3. The Account Manager will inform the Committee of market conditions which he believes require a temporary deviation from this *general operating policy*.

4. The Committee will intervene in the market for other securities whenever it feels that it can usefully do so to offset purely temporary effects which do not, in its opinion, fairly represent the true state of supply and demand for loanable funds. Such intervention will normally not exceed a period of two months and the portfolio will be returned to the normal all-shorts position within two months from the date of first intervention.

5. The Committee will not authorize longer holding of other securities because it does not intend to lend continued artificial support to any pattern of prices and yields. Such continued artificial support would amount to a deliberate distortion of the free market and an allocation of investment funds by fiat.

DRAFT
WT:llm
2/17/60

CURRENT INSTRUCTIONS AT EACH MEETING

REC'D IN RECORDS SECTION

FEB 25 1960

Until the next meeting of the Open Market Committee, the System Open Market Account is directed

(1) To conduct operations with the view to fostering sustainable growth in economic activity and employment, while guarding against excessive credit expansion.

(2) To make such purchases and sales of U.S. Government securities and bankers' acceptances, including exchanges and runoffs of maturing issues, and including repurchase contracts, as may be necessary to maintain a volume of member bank reserves that will cover temporary variations in the availability of and need for reserves, including such increase or decrease in currency in circulation as may occur and at the same time permit a growth in the total volume of bank reserves at the rate of about \$30 million a month (after allowance for customary seasonal variations).

(3) At no time shall the aggregate amount of securities in the System Account (excluding those held under repurchase contracts) be increased or decreased by more than \$500 million, shall the total amount of special certificates purchased directly from the Treasury exceed \$500 million, or shall the total amount of bankers' acceptances held by all Federal Reserve Banks (excluding those held under repurchase contracts) exceed \$75 million.

DRAFT
WT:Lim
2/17/50

STANDING INSTRUCTIONS FOR SYSTEM OPEN MARKET OPERATIONS RECORDS SECTION

FEB 25 1960

1. Transactions in United States Government securities for the System Open Market account, in bankers' acceptances by the Federal Reserve Banks, and purchases and sales of Government securities under repurchase contracts with dealers in securities shall be entered into for the purpose of providing or absorbing reserves of member banks and maintaining such reserves at amounts necessary for the needs of commerce and business in the light of the general credit situation of the country.

2. Transactions, unless otherwise authorized by the Committee, shall be limited to purchases and sales (on a cash or regular delivery basis) of short-term U.S. Government securities (issues maturing in less than two years) and of bankers' acceptances maturing in 90 days or less (including acceptances payable in foreign currencies), replacement of maturing securities through exchanges directly with the Treasury, redemption of maturing securities, and repurchase contracts against short-term U.S. Government securities or bankers' acceptances for periods of 15 days or less (provided that such repurchase contracts shall be at a rate below whichever is the lower of (1) the discount rate of the Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of three-month Treasury bills.

3. The Federal Reserve Bank of New York may in its discretion purchase special certificates of indebtedness directly from the United States in such amounts as may be needed to cover overdrafts in the general

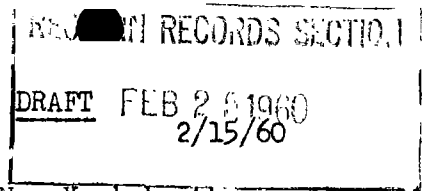
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account of the Treasurer of the United States on the books of such Bank or for the temporary accommodation of the Treasury, but such Bank shall take all steps practicable at the time to insure as far as possible that the amount of obligations acquired directly from the United States and held by it, together with the amount of such obligations so acquired and held by all other Federal Reserve Banks, does not exceed \$5 billion at any one time.

4. All such transactions shall be reported to the Federal Open Market Committee in the weekly reports of the Manager of the Account.

5. It is the policy of the Committee during periods of Treasury financing to avoid operations which may have the effect of altering the availability of reserves in the market relative to current needs or changing prices and yields of Government securities, particularly of issues directly involved in the financing operations or of outstanding issues of comparable maturities. It is the policy of the Committee not to support any pattern of prices or yields in the Government securities market. Exceptions to these general operating policies may be made at any time upon express authority of the Federal Open Market Committee.

6. Any operations involving purchases and sales of different securities at approximately the same time without altering the total amount of the portfolio (except to the extent appropriate to supply or absorb reserves in accordance with No. 1 above) shall be engaged in only for the purpose of improving the distribution of securities in the System Account and not for the purpose of influencing the structure of prices and yields of securities, except as may be specifically authorized by the Committee.



Directive issued to the Federal Reserve Bank of New York by the
Federal Open Market Committee at its meeting on March 1, 1960

The System Open Market Account shall operate either in the open market, or, in the case of maturing securities, by direct exchange with the Treasury.

Its primary purpose is to supply funds in the market in amounts appropriate to the needs of commerce and business, both current and prospective.

Standing instructions

(1) Unless specifically authorized by the Open Market Committee for temporary and emergency reasons, the Account shall operate in short-term securities. Short-term here signifies maturities within two years.

(2) Within this range of maturities, the Account may engage in "swaps" for the purpose of balancing maturities with the account needs.

(3) The Account may engage with dealers in repurchase agreements having maturities of 15 days or less.

(4) The Account may purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (with discretion to invite the participation of one or more Federal Reserve Banks) such amounts of such short-term certificates of indebtedness as may be necessary for the temporary accommodation of the Treasury, provided that the total amount of such certificates held at any one time by all the Federal Reserve Banks shall not exceed \$500 million.

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Instructions for the immediate future

Until the next meeting of the Open Market Committee, the System Open Market Account is directed

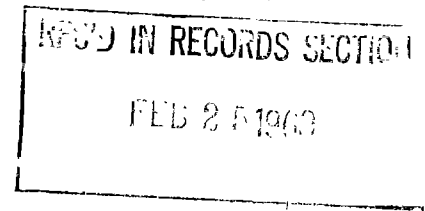
(1) To seek to foster sustainable growth in economic activity and employment, while guarding against excessive credit expansion.

(2) Except for such special short-term certificates of indebtedness as may be purchased from time to time for the temporary accommodation of the Treasury, the aggregate amount of securities held in the System Account shall not be increased or decreased by more than \$1 billion.

(3) Except as money market conditions require a departure therefrom, the Account shall use as a target a net borrowed reserve figure of \$300 million. It is the expectation of the Committee that this target may provide for growth of currency in circulation and of required reserves at a weekly rate of about \$20 million.

February 19, 1960

Memorandum to Members and Alternate Members
of the Federal Open Market Committee and
to Presidents of the Federal Reserve Banks
not on the Committee.



From Mr. Mangels.

A review of the ad hoc committee report of 1953, and of the minutes of the Federal Open Market Committee meeting which considered the policy recommendations in March of that year, reveals a sharp difference from the current situation in respect to both the position of the Federal Reserve System and the Government securities market. The ad hoc report was prepared while the System still followed some practices established during the war, and the Treasury accord was a still recent phenomenon. It was natural, under the circumstances, to find a strong reaction away from any operation resembling pegging rates and to offer assurances publicly to revitalize a free market in Government securities. This is 1960 and we have had sufficient experience with fluctuating interest rates, and the Government security dealers enough experience with us, so that our general attitude as to the nature of the market we desire to promote is well known. Under these circumstances, more flexibility in our published statement of policy is warranted, and it is less likely to be misinterpreted. A reasonable alternative to a full-dress revised statement of policy is to be preferred, as we do not desire to signal a major shift. One such alternative would be to combine this statement with the directive. This arrangement would have the further advantage of being explicitly reconsidered at each meeting of the Federal Open Market Committee. An explanation as to the omission of the annual policy statements in our published reports could be to the effect that policy is expressed in the directive adopted at each meeting, such policy being applicable to the period until the next meeting of the Committee.

Specifically, it is suggested that the present paragraph (1) of the directive be changed to (2), and paragraph (2) be changed to (3), with a new

Memo. to FOMC
From Mr. Mangels

2/19/60
Page Two

paragraph (1), as follows, expressing the policy as determined at the meeting at which the directive was approved:

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the Committee:

(1) TO EFFECTUATE THE OBJECTIVES OF MONETARY AND CREDIT POLICY BY PROVIDING OR ABSORBING RESERVES THROUGH OPERATIONS, FOR THE SYSTEM ACCOUNT IN THE OPEN MARKET, CONFINED TO SHORT-TERM SECURITIES (EXCEPT IN THE CORRECTION OF DISORDERLY MARKETS); (IF THE CURRENT OR INTERVENING PERIOD WILL BE ONE OF TREASURY FINANCING, INSERT HERE "DURING THE PERIOD OF TREASURY FINANCING THERE SHALL BE NO PURCHASES OF (1) MATURING ISSUES FOR WHICH AN EXCHANGE IS BEING OFFERED, (2) WHEN-ISSUED SECURITIES, OR (3) OUTSTANDING ISSUES OF COMPARABLE MATURITIES TO THOSE BEING OFFERED FOR EXCHANGE.") PURCHASE AND SALE TRANSACTIONS FOR THE OPEN MARKET ACCOUNT SHALL NOT BE CONDUCTED TO SUPPORT ANY PATTERN OF PRICES AND YIELDS IN THE GOVERNMENT SECURITIES MARKET, NOR SHALL TRANSACTIONS INCLUDE OFFSETTING PURCHASES AND SALES OF SECURITIES FOR THE PURPOSE OF ALTERING THE MATURITY PATTERN OF THE SYSTEM'S PORTFOLIO;

(As indicated above, present paragraph (1) would become paragraph (2). Assuming that the Committee would be agreeable to the amended clause (b) proposed by Governor Balderston at the February 9, 1960, meeting of the Committee, paragraph (2) would read as follows.)

{1} (2) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the

Memo. to FOMC
From Mr. Mangels

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open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to ~~restraining-inflationary-credit-expansion-in-order-to-foster-sustainable-economic-growth-and-expanding-employment-opportunities~~ FOSTERING SUSTAINABLE GROWTH IN ECONOMIC ACTIVITY AND EMPLOYMENT WHILE GUARDING AGAINST EXCESSIVE CREDIT EXPANSION, and (c) to the practical administration of the Account; provided that the aggregate amount of securities held in the System Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than \$1 billion;

(Present paragraph (2) would become paragraph (3) without change.)

~~(2)~~ (3) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate \$500 million.

CONFIDENTIAL (FR)

SECRET

FEDERAL RESERVE BANK
OF NEW YORK

FEB 25 1960

OFFICE CORRESPONDENCE

DATE SEPTEMBER 29, 1959TO MR. RALPH YOUNG (BOARD OF GOV.)
FROM JOHN J. LARKINSUBJECT: SUGGESTIONS RELATED TO OPEN MARKET
OPERATIONS RECEIVED IN TREASURY-FEDERAL
RESERVE STUDY

CC: Mr. Robert Mayo (Treas. Dept.)

In the course of the consultations held in connection with the joint Treasury-Federal Reserve Study of the Government Securities Market some of the consultees made suggestions related to operating practices in the conduct of System open market operations. These suggestions were generally received without solicitation on the part of the Study Group. No effort was made by the Study Group to treat with the merits of the suggestions on the spot. The consultees were advised that their comments would be given careful consideration.

The suggestions received are listed below. The listing does not purport to deal with matters other than the technical aspects of open market operations. Opinions expressed on technical or operating matters related to other fields are not considered here.

The System should consider making reverse repurchase agreements, i.e. sell securities to dealers with an agreement to repurchase at a stated price on a future date. This suggestion is designed to provide a tool to the System Account Management to absorb or offset a temporary reserve redundancy without having to sell bills outright (when the System has no repurchase agreements outstanding that can be run off or terminated). This suggestion carries with it the implication that a reverse repurchase agreement would have less effect on the securities market than would outright sales followed within a short period of time by outright purchases. It was also suggested that this technique might help to relieve the scarcity that develops in certain Treasury bill maturities.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE SEPTEMBER 29, 1958

TO MR. RALPH YOUNG
FROM JOHN J. LARKIN

SUBJECT: SUGGESTIONS RELATED TO OPEN MARKET
OPERATIONS RECEIVED IN TREASURY-FEDERAL
RESERVE STUDY

- 2 -

The securities held in the System Open Market Account should be available for lending to dealers, the same as certain commercial banks lend Government securities to dealers against equivalent collateral and for a stated fee (usually 1/2 of 1 per cent per annum). It is claimed that dealers would be able to make better markets (particularly on Treasury bills) if they could borrow securities temporarily from the System Open Market Account.

The System should consider making swaps in Treasury bills since open market purchases sometimes bring about an unusual scarcity in certain issues and limit the ability of dealers to make markets. It was claimed that these situations could be relieved through System swaps of Treasury bills.

Representatives of dealer-banks recommended that they should be advised when System repurchase agreements are made with non-bank dealers. They claimed that the mere making of System repurchase agreements could have an influence on market prices and that dealer banks should not be penalized by virtue of their non-access to the repurchase agreement facility.

The System should consider making repurchase agreements on U. S. Government securities maturing within five years rather than limit such agreements to securities maturing within 15 months, as is currently the case.

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DATE SEPTEMBER 29, 1959TO MR. RALPH YOUNG
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RESERVE STUDY

- 3 -

The Account Management is attempting to be too precise when using repurchase agreements in dealing with the reserve situation. It was suggested that the Management should make a final decision earlier in the day as to the acceptance or rejection of dealers' requests for repurchase agreement accommodation. This, it was said, would permit dealers to know where they stand in connection with their residual financing needs. It was also suggested that the amount of System repurchase agreements on a given day should not be measured so finely, since this instrument is directed toward the short-run reserve situation and does not really effect long range policy objectives. It was noted that the Account Management should not be concerned with releasing through repurchase agreements an amount of reserves, say \$50 million, in excess of what might appear to be the desired total because these are temporary funds similar to reserve changes deriving from float.

It was suggested that there be a review of the confidentiality that dealers are expected to attach to day-to-day transactions with the System Open Market Account. It was claimed that some dealers readily inform their customers whenever the System Account is in the market. Other dealers regard this disclosure as a breach of confidence but find that they are placed in an awkward

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

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FROM JOHN J. LARKIN

SUBJECT: SUGGESTIONS RELATED TO OPEN MARKET
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and embarrassing position when their customers indicate full knowledge of the timing of open market operations and, on occasion, the estimated magnitude. Indeed, one non-dealer consultee was of the opinion that detailed information on System open market operations should be publicly released through the ticker service on those days that the System Account is in the market.

None of the above suggestions represents a preponderance of opinion expressed in the Study. Each suggestion represents comments of one or only a few consultees, generally dealer representatives. Some of the above points have been set forth in Part I of the published report on the Study. They have not been evaluated by the Study group and are listed here so that they might be brought to the attention of the Federal Open Market Committee. The Committee may wish staff members and/or the Manager of the Account to review the merits of each point.

No attempt was made in the above listing to deal with suggestions encountered in the Study that relate to other Federal Reserve System matters. These would include the comments of some consultees who were of the opinion that speeches, public statements or meetings with representatives of the press by Federal Reserve (and Treasury) officials were sometimes disruptive market influences when they attempted to deal with monetary or fiscal policy matters. It was suggested that such pronouncements be held to a minimum and that official actions and statistics be permitted to speak for themselves.

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FEDERAL RESERVE BANK
OF NEW YORK

FEB 25 1960

DATE SEPTEMBER 29, 1959

OFFICE CORRESPONDENCE

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the wording of the directive had shown little or no change over considerable periods of time even though there were major changes in policy. Subsequent to 1951, he noted, the Committee had decided that it was preferable to spell out a little more definitely the policy to be followed between meetings and, since it now seemed to be the consensus that the Committee contemplated a change in policy, even though it was to be ever so mild and ever so gradual, he felt it desirable that a change be reflected in the wording of the directive.

Mr. Leedy said that he would be somewhat disturbed by a change in the directive which eliminated all reference to ease, and which would provide only that operations were to promote growth and stability in the economy. To make the directive so general in nature would be to return to the type of directive that Mr. Sproul had mentioned had been used a few years ago; such a directive would provide no definite guide to the executive committee but would be so broad in its terms that it would never need to be changed no matter how policy might change. Mr. Leedy questioned the desirability of resuming the use of directives so general in nature. On the other hand, he felt that since some change in policy was contemplated, a change should be evident in the wording of the directive and he, therefore, would be inclined to favor Mr. Sproul's motion.

Chairman Martin stated that he was impressed with the points made by Mr. Leedy and that, while he felt the general purpose of the Committee was to promote growth and stability in the economy, it probably would be undesirable to change clause (b) of the directive so that it provided only for this objective.

take into account the "feel" of the market as well as the volume of free reserves, money rates, and other factors. In other words, "feel" was to be only one of the factors to be considered in determining open market operations within whatever limits were prescribed by the full Committee and the executive committee.

In response to a question from Chairman Martin, Mr. Rouse stated that he had no suggestion for change in the limitations in the directive to be given by the full Committee to the executive committee.

EXCERPTS FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON JANUARY 11, 1955

REC'D IN RECORDS SECTION

FEB 25 1955

Mr. Sproul then made a statement substantially as follows:

1. First, I would like to say that I think the action of the Board of Governors in raising margin requirements last week was a timely and appropriate move, as a warning concerning the use of credit in the stock market, and having in mind the possible effect of movements in the stock market on the whole economy. I also think that it was a proper use of a selective credit control in the sense of supplementing over-all credit policy; it was in accord with the action taken by the Federal Open Market Committee at its last meeting changing the wording of its directive to the executive committee from one calling for the maintenance of active ease in the money markets to one calling for the maintenance of ease.
2. Second, I agree that economic recovery is no longer in the "bud" but I question whether such inflationary pressures as exist now need to be or can be nipped in the bud by general credit controls. We have an economy in which long-term growth factors and cyclical recovery factors are combining to produce a vigorous upturn, which seems likely to persist for some time, and I would not want to see it hindered at this stage by general credit restraints.
3. To discuss this question, in terms of open market policy, it seems to me that we may need to have a clearer understanding of some of the terms we have been using to label open market policy. In our discussions we have gotten into the habit of using such terms as "active ease", "ease", "neutrality", and "restraint", but we seldom try to define what these terms mean. We need also to recognize that they only label broad general policies, and that there can be numerous gradations of policy within broad general policies. Changes are ordinarily made gradually within the limits of a broadly defined policy, not by abrupt movements from one policy to another. That is a difficulty in catching in a phrase, or a directive, these refinements of policy and the thinking of each of twelve individuals which led to those refinements.
4. To assist my own thinking, and as a rough approximation of present meaning I have tried to give some definition to the terms we have been using.
"Active ease"
 - (a) Maintenance of a volume of excess reserves large enough to assure ready availability of bank credit, in ample volume for all borrowing needs meeting ordinary standards of credit worthiness. This ease should be expected in time to pervade all credit and capital markets.

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- (b) The discount rate at a low level.
- (c) Relatively low interest rates at all maturities, with a tendency toward a continuing decline of rates whether or not continued declines are desired as a matter of policy.
- (d) Short-term money market rates ordinarily far enough below the discount rate so that access to reserve funds will be cheaper through the open market than through the discount window.
- (e) Member bank borrowing from the Federal Reserve Banks only intermittently, and in small volume by reason of individual bank situations.

"Ease"

- (a) Bank reserves and bank credit continue readily available to meet credit-worthy demands; no need of allocation of funds, on part of banking system as a whole, to particular uses because there is not enough credit to go around; but no pressure on the banks to find uses for a continuously increasing supply of reserves.
- (b) Discount rate continues at a low level.
- (c) Tendency toward decline in other rates of interest (existing during period of "active ease") is checked and some rates advance.
- (d) The more sensitive money market rates - Federal funds, dealer loans, and Treasury bills - move up toward discount rate so that, at times, borrowing reserves through discount window may be more advantageous than obtaining them through the open market.
- (e) Individual member banks borrow with some frequency in initial response to expanding credit needs but a sustained and growing aggregate volume of borrowing is soon relieved by open market operations.

"Neutrality"

- (a) Volume of bank reserves still ample to meet credit-worthy demands. Market factors allowed to express themselves in the reserve position of banks. This would mean, in most instances, no continuous cushion of excess reserves and the elimination of free reserves in the aggregate.
- (b) Any appreciable change in economic conditions or over-all credit demands would have a fairly prompt reflection in more sensitive rates of interest and, if there were tightening tendencies, the sensitive money market rates would be expected to move above the discount rate.

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- (c) At some stage, if these tendencies continue, the discount rate would be moved up toward what might be considered the middle of its range.
- (d) A moderate volume of member bank borrowing might be outstanding much of the time, but continuing pressure on the banking system as a whole to meet its needs by heavy borrowing would eventually be resisted by open market operations.

"Restraint"

- (a) Through absorption of reserves or reluctance to provide reserves through open market operations, general awareness would be created that bank credit is not available in sufficient volume to meet all of the demands that are being made upon it.
 - (b) Pressure of an excess aggregate demand of credit upon a limited over-all supply would be expected to cause higher rates of interest, and there may be a tendency for rates to rise whether or not intensification of pressure is desired. (Our experience in early 1953 is an example, perhaps.)
 - (c) The discount rate would be raised in confirmation of the general policy of restraint, to the higher levels of its range.
 - (d) Sensitive money market rates would be close to or above the discount rate at all times.
 - (e) A substantial growth of member bank borrowing should take place, as a result of excess credit demands, which would only be moderated by open market operations if the apparent degree of restraint was becoming too great.
 - (f) Reserves continue available at all times at a price - the objective is not to shut off bank credit or even a net reduction, but to limit growth so as to avoid inflationary pressures from the monetary side.
5. In these terms, the present economic situation still seems to me to call for a policy of "ease", call it minimum ease if you want, rather than a neutral or restrictive policy. Cyclical recovery from the recession of 1953-54 has shown additional vigor in the last two months and the economy seems likely to continue strong during the next few months. But it still remains true that the revival reflects more a cessation of deflationary influences than the emergence of new and continuing expansionary forces. The most recent dynamic factors in the

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recovery - the early date of model change and the upsurge of automobile production, and the continuing stimulus of very liberal credit terms in the home construction industry are not new expansionary forces and may possibly carry the seeds of their own deflation later in the year. With inventory liquidation only now coming to a halt, with non-farm prices generally stable and farm prices still declining, with high productive capacity facing increased competition, with the possibility of a continuing problem of unemployment and major labor conflicts, and with the Treasury taking funds out of the economy instead of putting them in as during the past six months, there seem to me to be economic (and political) dangers in trying to reach, by general credit measures of a more restrictive nature, whatever spots of speculation or inflation may seem to be developing at the moment.

6. So far as credit policy is concerned, it should be emphasized that right now we want to meet the credit requirements of cyclical recovery as well as secular growth. Without creating a general inflationary bias or the need for a neutral or restrictive credit policy, this combination of demands might lead to a less than "seasonal" decline in the use of bank credit during the first half of 1955, or might even result in some desirable expansion of such credit. We should not be led, therefore, by shaky figures of "normal, seasonal" declines in the use of credit to adopt a more restrictive policy than the economic situation justifies.
7. With a continued policy of "ease":
 - (a) I would expect banks, and particularly money market banks, to be in a well-balanced position - no longer under pressure, as they were last year, to seek new investments continuously in order to avoid carrying excess reserves, but still ready and eager to meet legitimate loan demands.
 - (b) I would expect sensitive short-term money market rates to fluctuate only a little way below the discount rate most of the time.
 - (c) And I would expect the discount window to become more of a factor in providing bank reserves.

This would seem to me to be a healthy situation.

8. Just where free reserves fit into this picture is hard to pinpoint. We have to remember that we are in the process of weaning the banking system from a condition of active ease, and that we want to put on the brakes gradually, and maybe even take them off from time to time. We also have to remember that the distribution of reserves is a variable which can

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be important. So far as free reserves can be used as a guide, therefore, I think we shall have to feel our way down. We may find that over a period of several weeks we can and should get rid of the idea of free reserves, and of free reserves themselves, but I still want to move gradually rather than abruptly at this stage of our economic recovery. A change in the directive of the Federal Open Market Committee to its executive committee, which would call for credit restraint as contrasted with our present policy of less ease, would seem to me to be a mistake.

Mr. Sproul concluded by remarking that he would not wish to see the intent of the directive changed at this time. As regards Chairman Martin's suggestion, Mr. Sproul said that he had no objection to substituting "foster" for "promote" in the directive so long as the Committee understood that our operations were still aimed at the lower end of a condition of "ease".

Chairman Martin stated that he felt all of the members of the Committee had benefited from Mr. Sproul's comments and that he hoped each of them would read Mr. Sproul's statement on the definition of terms. In his (Chairman Martin's) opinion, one of the biggest problems of the Committee was understanding the terms that were used in describing credit policy and in translating those terms into instructions or directives contained in the minutes of the meetings of the Committee. Chairman Martin went on to say that there obviously was a difference of judgment between Mr. Sproul and himself in connection with the economic situation and the credit policy that should be followed, although he did not think it very large. He said that he regretted very much the "leak" that developed in the policy of the Committee immediately following its meeting on December 7, 1954 when the word "actively" was removed from the full Committee's directive to the executive committee in describing the program to be

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followed in maintaining ease in the market. However, it is necessary to put into the annual record of policy actions of the Federal Open Market Committee a statement with respect to the policy decisions reached at at least four meetings a year--in fact, Chairman Martin said, there was a likelihood that a bill would be introduced in the Congress to require a statement of open market policy decisions each quarter of the year. It was Chairman Martin's view that the Committee should issue its directives in terms that followed as closely as possible the views and words on which there was a meeting of the minds of the members of the Committee. This was difficult but every effort should be made to follow such a procedure. His own personal view as to the current situation was that the use of the word "promote" in the Committee's directive was not appropriate under present circumstances. Chairman Martin said that he was not talking about apprehensions as to the future: that what might happen in the future was partly dependent on what the Committee did in the present. While he did not wish to stress the word "inflation" it was Chairman Martin's judgment that the forces of easy money in the market had gotten out of proportion to what the Committee has been trying to do in the way of promoting growth and stability in the economy. This did not mean that he felt the Committee should go to a policy of restraint but it did involve the problem of the exact meaning of such words as "ease", "active ease", "neutrality", and "restraint". While there had been a time when he felt "neutrality" was quite an important word, Chairman Martin said he was not sure of its meaning. He was sure, however, that the psychological reaction of the market was different at different times. He was convinced that the

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Committee recently had been operating with much too high a level of reserves and that, whatever the words used to indicate a change, flexible monetary policy called for a recognition of this situation. If the Committee after discussion did not feel that any change should be made in the directive, then the directive should remain unchanged. But it was important to make the directive reflect whatever the Committee felt fitted the situation at a given time. Chairman Martin did not think that he and Mr. Sproul were far apart on the level of free reserves that would be desirable but if open market operations were to be such that there would be "zero" free reserves for a time, he would prefer as a member of the executive committee that the directive from the full Committee be changed at this meeting to recognize a shift in emphasis.

Mr. Mills said that he would like to express a midpoint view. He thought the Committee was thinking of a "firm" money policy, not a policy of tightness or of ease. While he did not have the concern regarding the wording of the directive that had been expressed earlier in the meeting, he said that he was concerned as to how the directive of the Committee would be interpreted by the management of the account as it carried out operations under the continuing directives of the executive committee. Mr. Mills felt the present period was one of economic flux which deserved a cautious approach to future policy. The Committee had moved from its policy of active ease to a climate of "firmness". While the Committee wished to slow down investment activities, as in the long-term mortgage field, it would wish, if possible, to avoid choking off legitimate activities. Mr. Mills felt that whatever directive was decided upon, it would

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be desirable to vest the executive committee with an authority which would avoid a too rigid interpretation of the instruction: the instruction should be flexible enough to permit, if the executive committee found it was moving too severely toward a situation of tightness, relaxing from that position without need for going back to the full Committee.

Chairman Martin said that Mr. Mills had made an excellent contribution to the discussion, that it was particularly appropriate in view of the Treasury's position. Also, he noted that Mr. Mills had added the word "firmness" to the group of words Mr. Sproul had commented on in his statement. It was these different shades of meaning and emphasis that should be thought through, he said, in terms of the objectives of the Open Market Committee and the contribution that monetary policy could make under any given conditions.

Mr. Leedy felt that continuation of the word "ease" in the full Committee's directive might subject the Committee later on to an appraisal which it would not desire. It was evident, he said, that there were some excesses in the present situation, as in the securities market, and it was his view that at this juncture the Committee's record should indicate a directive to the executive committee to be moving in the direction of firmness, rather than to be continuing with wording that had gotten into the directive at a time the Committee was actively promoting ease. Mr. Leedy suggested that clause (a) of the full Committee's directive might well be amended by adding to it words which would make it read that open market operations should be with a view "to relating the supply of funds in the market to the needs of commerce and business by effecting an orderly

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reduction in the monetary supply responsive to seasonal requirements." He also suggested that clause (b) be changed so that the Committee's directive would not call for "promoting" or even "maintaining" a condition of ease. He questioned whether a program of operations such as Mr. Sproul had outlined could be carried out under the existing directive without violating the ordinary meaning of its terms.

Mr. Robertson, after stating why he felt it desirable to have meetings of the full Committee as frequently as might be called for because of differences of opinion, said that while he did not think the Committee was fighting inflation today, it was trying to prevent development of inflation. With that in mind and with the thought of a progression from a state of "active ease" to "ease" to something else, he would suggest that clause (b) of the Committee's directive be changed to indicate that open market operations should be with a view "to promoting long-term growth and stability in the economy by maintaining for the time being a condition of mild restraint." He did not care so much what the precise wording of the directive was and would have no objection to the wording Chairman Martin had suggested indicating that the Committee wished to avoid unsound conditions, but he did feel that the directive should show that the Committee was now moving from a condition of ease to something like mild restraint.

Mr. Williams stated that for purposes of perspective he would like to approach the problem of credit policy from another angle. During the past week, he said, he had been in touch with five individuals who had complained about the unusual competition that existed in business and about the pressures that existed on prices. He also cited complaints of automobile

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dealers that manufacturers were failing to protect dealers' territories. In another instance, the head of a large corporation had caused a survey to be started in his plant with a view to effecting all possible economies. Mr. Williams also stated that real estate firms had expressed concern about recent tendencies in credit policy and that one member of the Philadelphia Bank's Board had predicted that later this year there would be considerable weakness in the market for older houses, so much so that the advantages of going into an old house would be so great that many persons would turn from purchases of new houses which could be bought with no down payment and would instead purchase the older houses. Mr. Williams thought these factors added up to saying that the spirit of optimism which seemed so unanimous might grow out of special factors, rather than influences that were generally present in the economy. He could see nothing to indicate an incipient boom, and he did not think the Committee should go on record by inserting the words "mild restraint" in its directive. He would accept "fostering" in place of "promoting" and he would be agreeable to inserting a phrase that would suggest the avoidance of unsound conditions, but he did not think the existing policy of the Committee should be changed very much. While he would be willing to see the Committee working down a little in the amount of ease, it should not actually work in the other direction, that is, in the direction of restraint. In response to Chairman Martin's question, Mr. Williams agreed that what he was suggesting was working a little further toward the middle-ground in credit policy.

Mr. Balderston said he thought the recovery taking place was one which needed to be sustained and that this required attention to two

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incipient trends: (a) impairment of the quality of mortgage debt and automobile instalment paper, and (b) the climate of speculative activity that stemmed from conditions in the market. This led him to favor some change in the wording of the directive, preferably along the lines Chairman Martin suggested. More importantly, Mr. Balderston said, he would favor a change in target to a zero amount of free reserves and bill rates approximating or perhaps exceeding the present discount rate. Mr. Balderston said he was thinking of the problem that would face the System in the future of perhaps making an adjustment in the discount rate--he wished it were now $1\frac{1}{4}$ per cent instead of the existing $1\frac{1}{2}$ per cent rate.

Chairman Martin then summarized the several suggestions made, namely, Mr. Leedy's suggestion for a change in clause (a) of the directive which would call for effecting an orderly reduction in the monetary supply responsive to seasonal requirements; his own suggestion which would call for a change in clause (b) of the directive so as to provide for the conduct of operations with a view to "fostering" (rather than "promoting") growth and stability in the economy and avoiding the development of unsound conditions; Mr. Robertson's suggestion which would include insertion in the directive of "long-term" before "growth and stability" and of words indicating that the Committee was moving from a policy of ease to one of mild restraint; and Mr. Williams' caveat that whatever the change, the Committee avoid any wording of its directive which would indicate it was moving to a policy of mild restraint.

In a brief discussion of Mr. Robertson's suggestion that "long-term" be inserted before "growth and stability", it was the consensus that the idea of long-term was inherent in the objective of promoting or fostering

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growth and stability in the economy and, accordingly, that the addition of the words "long-term" was unnecessary. Mr. Thomas commented that the use of the words "growth and stability" as a part of the Committee's directive implied a sustained growth but that growth could not be sustained if it proceeded too fast.

Mr. Szymczak suggested that regardless of the wording chosen for the directive, the important thing was to discuss the policy which the Committee wished to follow to see if there could be a meeting of minds as to what the Committee meant when it used different terms. This would help when the executive committee and the Manager of the System Account came to interpreting directives given to them.

Chairman Martin stated that he felt the framework of what the Committee was trying to do at this time was fairly clear, but he doubted whether agreement could be reached at this meeting on definitions of terms.

Mr. Szymczak responded that he felt a study of the suggestions made by Mr. Sproul and of the changes proposed in the directive by Messrs. Leedy and Robertson would help in the future.

Mr. Earhart suggested that the Committee at least take the word "ease" out of its directive at this time. He could see no harm in taking it out and felt it would make a better record since it appeared the Committee did not now wish to be "pushing" reserves into the market.

In the course of further discussion, Mr. Robertson suggested that in place of the words "mild restraint" which he had suggested earlier it might be preferable to use the term Mr. Mills had used--"firmness"--as indicating the kind of policy the Committee had in mind.

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Mr. Sproul stated that he did not think the wording of the directive made too much difference if there was general agreement on what the Committee proposed to do and if the Committee knew what the executive committee was expected to do. With gross national product still \$5 billion below what it was in mid-1953 and thinking in terms of an economy that would grow over the long term, Mr. Sproul could see no basis now for introducing the word "firmness" into the Committee's directive. This would indicate a policy of restraint, and he felt the economy was still in that part of the quadrant of a circle calling for ease but working gradually toward the next step. However, so long as there was understanding as to the meaning of the words used and so long as the Committee understood that it was gradually feeling its way and not adopting a policy of restraint, he would not be concerned about the wording of the directive although he would prefer that it not be changed.

Chairman Martin then read a statement which Mr. Riefler had prepared indicating that the various views expressed all amounted to saying that the Committee wanted credit policy to be carried out with a view "to fostering growth and stability in the economy by effecting for the present an orderly reduction in the supply of free reserves."

Mr. Rouse said that this was about the conclusion he had come to: that the Committee had in mind gradually contracting the volume of free reserves from its present level.

No disagreement was indicated with the statements of Messrs. Riefler and Rouse as reflecting what the Committee had in mind as to policy for the immediate future, but Mr. Szymczak thought it would not be desirable to inject the words "free reserves" into the directive.

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There was a further discussion of the several suggestions made for change in the wording of the directive and of the desirability of having wording which applied to the immediate situation, rather than a statement of a general objective of credit policy good for all time to come. In the course of this discussion, Mr. Szymczak again suggested that it might be desirable to make a further study of the suggestions made by Mr. Sproul as to the definitions of terms; in the meantime, without changing the directive of the full Committee, the executive committee could work within the framework of a policy along the lines discussed at this meeting.

Chairman Martin responded that if the Committee was going to act now to authorize a policy along the lines of the discussion, he felt the Committee should agree at this meeting on a phrase which was representative of the shade of opinion on which there was agreement at the meeting today.

Mr. Irons then suggested that while he was not a member or alternate member of the Committee, the tenor of the discussion indicated to him that clause (b) of the Committee's directive would be given a meaningful wording if it were to provide that operations should be with a view "to promoting growth and stability in the economy by maintaining conditions in the money market so as to avoid the development of unsustainable expansion".

After discussion of Mr. Irons' suggestion, Mr. Sproul moved that the Committee modify clause (b) of the first paragraph of its directive to the executive committee to read, "to fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion".

Mr. Sproul's motion was put by the Chair and carried. On this motion, Mr. Bryan

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requested that he be recorded as "not voting". In connection with his request that he be recorded as not voting, Mr. Bryan made a statement substantially as follows:

I should like to be recorded as not voting. This request is made because I came to this meeting prepared to discuss the economic situation, and prepared to discuss appropriate policy in terms of reserves and money rates. I find myself ill-prepared to discuss textual changes in the directive of the Committee, and least of all prepared, in the light of the discussion we have had to appraise the significance of the textual changes actually adopted, or the magnitude of the policy changes contemplated by the changes of language. In view of this lack of preparation and understanding on my part, I believe that it is wisest for me not to vote either for or against the proposal.

It seems to me that there is a difference of opinion, or a substantial difference of emphasis, as to what our actual policy should be in the light of current economic events. We have not, I believe, come to grips with that fundamental and basic difference of opinion in terms of free reserves, total reserves, or money rates but have devoted ourselves to a textual change in the directive that conceals rather than reveals our differences. That textual change is apparently intended to signal a change of policy but not in a way that makes reasonably clear to the executive committee and the agent for the account what actual policy is intended. Please forgive the opinion that we have attained a semantic solution that does not set forth what it is that we want to do, and does not clearly enough tell our agent committee and agent bank what we have in mind.

If I were the agent bank, or the agent executive committee, charged with the responsibility of effecting the intentions of the full Committee, I would be fearful of so vague a directive. I would have no way of certainly proving that I had discharged my responsibilities and would thus court the danger of being second-guessed and falsely suspected, which is a human tendency in any event and almost inevitable when the principal is a committee and the agent is given a directive that conceals differences of opinion regarding the proper policy, or the proper extent of policy change, or both.

An important source of our difficulty in writing a directive, and an important source of danger to the agent executive committee and agent bank, I believe, is that we have been trying to use terms that are qualitative in nature. Qualitative terms have great use in certain fields, but I doubt if they are of much help to any of us here in saying what we want to do, unless, as Mr. Sproul has commendably attempted, we define those terms with considerable precision.

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Unfortunately, qualitative terms run into the difficulty that they must usually be defined by other terms that are qualitative in nature. Thus, we have many terms such as ease, active ease, firmness, restraint, mild restraint, and so on. It may be that these terms can be sufficiently defined that there is a minimal room for difference of opinion as to the policy intended, the authority delegated, and the discharge of the delegation; but I am now tempted to the opinion that we will understand our policy better, and make a better discharge of our responsibilities, within acceptable canons of delegation as between principal and agent, the more nearly we develop directives that avoid qualitative terms and approach directives in quantitative terms, whether free reserves, total reserves, money rates, or money-rate ranges.

On the economic situation, I share totally the views expressed by Mr. Sproul and Mr. Williams. I quarrel with nobody's conjectures, but it seems to me that we have the problem of taking up slack in the economy and of providing for a growth sufficient to provide for a rapidly expanding working population. I cannot see, by an examination of prices or employment levels, any real inflationary problem at this time. Therefore, I am extremely concerned, as I was in December, when I reluctantly voted to take the word "active" out of the policy directive as describing our policy of monetary ease, that any actual change in policy--whatever words we may use in the directive--be very tentative, very hesitant, very experimental, lest we send a pall over the economy.

EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON MAY 10, 1955

REC'D BY RECORDS SECTION

FEB 27 1960

Mr. Sproul said that the executive committee meeting on April 26 included a discussion of the directive issued by the full Committee, particularly of clause (b) instructing the executive committee to arrange for transactions with a view, among other things, "to fostering growth and stability in the economy by maintaining conditions in the money market that would encourage recovery and avoid the development of unsustainable expansion" It seemed clear at that time, Mr. Sproul said, as it had in the economic presentation this morning, that recovery had been completed. The Committee was no longer in the stage where it should be directing policy toward encouraging recovery; its problem now was to conduct open market operations and to administer credit policy so as to foster growth and stability in the economy by maintaining conditions in the money market which would avoid the development of unsustainable expansion. That was a shift in emphasis rather than in direction, but the executive committee had felt, Mr. Sproul said, that a meeting of the full Committee was needed to consider the situation for the immediate future and perhaps for the more distant future, and to consider the possible adoption of different wording for the instruction from the full Committee to the executive committee for carrying out open market operations.

* * * * *

Chairman Martin . . . suggested that the discussion be divided into two parts, the first to be consideration of Mr. Sproul's suggestion regarding a change in the wording of the directive from the full

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Committee to the executive committee so as to eliminate the instruction to encourage recovery, and the second to be consideration of the policy to be followed with respect to open market operations between now and the next meeting of the Committee.

Mr. Fulton referred to the wording of the directive and inquired whether the word "stability" was compatible with "fostering growth" in the economy; that is, whether "growth" was consistent with the objective of maintaining a stable level of economic activity.

Mr. Sproul responded that he felt "stable growth" was the kind of growth the Committee was trying to maintain, that it was not seeking a "static" economy. He could see nothing inconsistent between "stability" and "growth", if that meaning were given to the directive.

Chairman Martin suggested that "orderly growth" would mean a stable economy, and he added the comment that it was partly a matter of the meaning that the Committee wished to read into whatever words it used in writing its instructions.

Mr. Robertson stated that, in his opinion, we were not now in the stage where the Committee ought to be fostering growth. Growth was inherent in the whole situation, he said, and the Committee would be better off if it were to take out of its directive words indicating that operations should foster growth and were to leave only the direction that operations should foster stability. He agreed with Mr. Sproul's suggestion that words indicating that the Committee now wished to "encourage recovery" should be deleted from the directive, since this was no time for the Committee to be encouraging recovery. He also suggested that some other words in the present directive were unnecessary.

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Mr. Robertson then read a suggested revision of the first paragraph of the full Committee's directive to the executive committee which would instruct the executive committee to arrange for such transactions for the System account "as may be necessary or appropriate in the light of current and prospective economic conditions with a view (a) to relating the supply of funds to the needs of commerce and business, (b) to fostering stability in the economy by maintaining conditions in the money market which would avoid unsustainable expansion, (c) to correcting a disorderly situation in the Government securities market, and (d) to the practical administration of the account"

Chairman Martin invited other suggestions for change in the directive and Mr. Leach suggested consideration be given to amending clause (b) of the first paragraph of the Committee's directive to provide that the executive committee should arrange for such transactions for the System account "as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to fostering growth and stability in the economy by maintaining conditions in the money market that would be consistent with a high level of economic activity and that would avoid the development of unsustainable expansion, (c) to correcting a disorderly situation in the Government securities market, and (d) to the practical administration of the account"

Following a rereading of the suggestions by Messrs. Robertson and Leach, Chairman Martin stated that he would dislike removing from the directive the concept of "growth." This concept, he said, was

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inherent in stability, but his view was that it was desirable to have it set forth explicitly in the full Committee's directive.

Mr. Sproul stated that he too would be reluctant to see the policy directive leave out any reference to growth in the economy. He felt that a retention of some word to indicate that the Committee was conscious of the need for growth in the economy--a word which would reflect the Committee's concern with an interest in that aspect of economic activity--would be desirable.

Mr. Balderston stated that in view of the present amount of unemployment in the economy, he felt the Committee should look on growth as one of the problems with which the Committee was concerned, although he was not greatly concerned with the particular words used so long as the idea was in the directive. He also suggested that clause (c) of the full Committee's directive indicating that operations should be with a view "to correcting a disorderly situation in the Government securities market" implied the existence at this time of a disorderly situation, and he felt it would avoid any such implication if it were changed to read "to correcting disorderly situations in the Government securities market."

Mr. Shepardson agreed with the latter suggestion, stating that this clause had struck him as implying the current existence of a disorderly situation in the Government securities market which needed correction.

During the foregoing discussion Mr. Vardaman withdrew from the meeting.

Chairman Martin stated that the Committee should not overlook the fact that the directive of the full Committee would be published in the open market policy record. He also cautioned that changes should not be

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made which might be construed as having more significance than was intended.

There followed a further discussion of the suggestions that had been made during which Mr. Earhart inquired whether much if any change of policy was contemplated in the Committee's operations at the present time.

It was the consensus that little or no change in policy was contemplated at the present time but that a change in wording would be for the purpose of adapting the directive to the existing situation which no longer called for encouraging recovery.

After some further discussion, Chairman Martin suggested that each of the suggestions made seemed to be driving at the same point but that it was difficult for the Committee to rewrite a directive which had been carefully developed over a period of years, on the basis of various considerations, some of which were of a legal nature. The present directive, he noted, might contain implications which the Committee would not wish to change without thorough consideration, including advice of counsel and other members of the staff.

Mr. Thomas referred to Mr. Robertson's suggestion which would remove from the first part of the full Committee's directive the provision that operations be in the light of "the general credit situation of the country" leaving as a general standard only a reference to "current and prospective economic conditions." It was Mr. Thomas' view that the phrase referring to the general credit situation was put in the directive intentionally to indicate that consideration was to be given to qualitative factors in the credit picture, and he felt it might be unfortunate to remove from the directive the specific indication that the general credit

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situation was a consideration in determining operations for the System Account.

Mr. Mills concurred in this view, adding the comment that the phrase was a recognition of the statutory responsibilities of the Open Market Committee.

There was a further discussion of the several suggestions made, at the conclusion of which Chairman Martin suggested that the least change feasible be made in the language of the directive at this meeting, which would mean taking Mr. Sproul's suggestion that the words "encourage recovery and" be deleted from clause (b) of the directive that would be issued today, to make that clause read "to fostering growth and stability in the economy by maintaining conditions in the money market that would avoid the development of unsustainable expansion" He also suggested that Counsel be asked to consider the several suggestions made during this discussion, with a view to submitting for consideration at the next meeting of the full Committee whatever suggestions for change might seem to be desirable.

Chairman Martin's foregoing suggestions were approved unanimously.

EXCERPTS FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET SECTION
COMMITTEE ON JUNE 22, 1955

FEB 25 1960

Chairman Martin then called upon Mr. Vest for comment on a memorandum distributed under date of June 2, 1955 with respect to possible changes in the wording of the directive from the Federal Open Market Committee, discussed at the meeting on May 10, 1955. The memorandum reviewed the changes in wording which had been discussed at that meeting and suggested alternative language that might be used in the event the directive were to be changed. It stated, however, that it was the consensus of the staff that it would be preferable not to make a change in the form of the directive in the immediate future unless some further change of policy of the Committee should make necessary a change in the directive.

During the ensuing discussion, several members of the Committee indicated that they felt the alternative wording presented in Mr. Vest's memorandum of June 2 would be preferable to that now in the directive, but that they would not be disposed to make a change solely for the purpose of modifying language. Chairman Martin commented that the question was largely a matter of "tidying up" wording, that he did not have a strong feeling on the question, but that his judgment would be that while the revised wording would improve the language of the directive it would be preferable not to make a change unless some further change of policy of the Committee was being made.

Some additional changes in language were also suggested during the discussion, and Chairman Martin commented that he felt it was not practicable to draft language for a directive in meetings of this size. At the conclusion of the discussion, it was agreed that the revised language outlined in Mr. Vest's memorandum should not be incorporated in the directive at the present time but that it would be considered whenever a change in policy made some change in the wording of the directive necessary.

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EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON JUNE 22, 1955

Chairman Martin next referred to a memorandum from the Secretary with respect to suggested revisions in several continuing operating policies of the Committee as proposed by Mr. Robertson at the meeting on March 2, 1955, which was sent to the members of the Committee under date of June 3, 1955. At his request, Mr. Robertson commented upon the changes which he would propose be made in the continuing operating policies of the Committee, noting that his changes were intended to be changes of language which would clarify the intent of the Committee in its continuing statements of policy relating to support of Government securities, intervention in the Government securities market, operations in the short end of the market, operations during a period of Treasury financing, and operations for the purpose of providing or absorbing reserves. Chairman Martin then called upon Mr. Sproul who made a statement substantially as follows:

I am sure that you will all understand that I continue to be opposed to anything which tries narrowly to limit System or Open Market Committee responsibility solely to the volume of bank reserves, that I continue to oppose our renunciation of all or any transactions directly related to security issues involved in Treasury financings and the prohibition of swaps, and that I oppose the limiting of our transactions to short-term securities, preferably bills.

Whatever suggestions I have to make concerning Governor Robertson's proposed wording of our directives with respect to continuing operating policies are, therefore, relatively minor and probably gratuitous, since I probably will have to vote against the whole resolution.

Mr. Sproul then suggested some changes in language which he felt might be desirable if the revision proposed by Mr. Robertson were to be acted upon.

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Chairman Martin stated that he hesitated to have language of policy statements changed without having given an opportunity for all members of the Committee to study the suggested changes carefully. It was his view that the proposal made by Mr. Robertson as well as the suggestions made by Mr. Sproul should be made available to all members of the Committee before they were called upon to vote on a change.

Mr. Sproul said that he agreed with the position taken by Chairman Martin, that he felt it was desirable to have time to study the proposed language of the statements of operating policies, and that it was not practicable for the Committee as a whole to draft language in meetings such as this.

Following further discussion,
Chairman Martin's suggested procedure was approved unanimously.

REC'D RECORDS SECTION

FEB 25 1960

EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL OPEN MARKET
COMMITTEE ON JULY 12, 1955

Chairman Martin referred to the discussion at the meeting on June 22 of Mr. Robertson's suggestion for rewording statements of certain continuing operating policies of the Committee relating to support of Government securities, intervention in the Government securities market, operations in the short end of the market, operations during a period of a Treasury financing, and operations for the purpose of providing or absorbing reserves. The statements had been approved at the meeting of the Committee on March 2, 1955, and a memorandum had been sent to the members of the Committee by the Secretary under date of July 7, 1955, presenting Mr. Robertson's proposed rewording, as well as alternative language suggested by Mr. Sproul at the June 22 meeting.

The statements as approved March 2, 1955 and as presently in effect read as follows:

It is agreed that it is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

It is agreed that operations for the System account in the open market, other than repurchase agreements, be confined to short-term securities (except in the correction of disorderly markets) and that during a period of Treasury financing there be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange; and that these policies be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

It is agreed that transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction

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of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Mr. Robertson's suggested revision read as follows:

It is not now the policy of the Committee to support any specific pattern of prices and yields in the Government securities market, and transactions in the System Open Market Account shall be undertaken solely for the purpose of influencing the volume of bank reserves and thereby the costs and availability of credit, in order to promote economic growth and stability (including correction of disorderly markets).

Transactions for the System account in the open market shall be confined (except in correction of disorderly markets) to short-term securities, preferably bills, and shall not include offsetting purchases and sales of securities of different maturities.

During periods of Treasury financing there shall be no purchases for the System Open Market Account of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange.

Mr. Sproul's proposed alternative language would change the first two paragraphs of Mr. Robertson's suggested revision as follows:

It is not now the policy of the Committee to support any specific pattern of prices and yields in the Government securities market, and transactions in the open market shall be undertaken ~~solely~~ TO EFFECTUATE THE OBJECTIVES OF MONETARY AND CREDIT POLICY (INCLUDING CORRECTION OF DISORDERLY MARKETS) BY ~~for the purpose of~~ influencing the volume of bank reserves and thereby the costs and availability of credit, in order to ~~promote~~ FOSTER economic growth and stability (~~including correction of disorderly markets~~).

Transactions for the System account in the open market shall be confined (except in correction of disorderly markets) to short-term securities, preferably bills, and shall not include offsetting purchases or sales of securities of different maturities EXCEPT BILLS.

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Mr. Robertson stated that his proposal for rewording of these statements of continuing operating policies, which had first been adopted by the Committee in 1953, was for the purpose of clarifying the existing statements and eliminating language which may have caused misunderstanding or misinterpretation of the intent of the statements in the past. He then commented briefly on the proposed language of the statements and on reasons why he preferred language he had suggested to that suggested by Mr. Sproul at the meeting on June 22.

Mr. Sproul said that, as he had indicated three weeks ago, his suggestions were made in the interest of clarity, since he would have to vote "no" on the statements in anything like their present form. In explanation of his specific suggestions, he said:

1. It is desirable to retain the positive or affirmative statement of intent included in the policy statement of March 2, 1955, and to place it in immediate opposition to the negative statement. It is also desirable to tie in the correction of disorderly markets with the objectives of monetary and credit policy.

2. We should not seem to deny, by use of the word "solely", a secondary responsibility to coordinate credit policy with debt management, a responsibility which we actually respect whenever it is possible to do so without running wholly counter to credit policy.

3. The permissive swaps of bills would facilitate the practical administration of the account, contribute to the functioning of the bill market, and not transgress the general principle which led the majority of the Committee to prohibit swaps.

Several other suggestions for change in language were made by other members of the Committee and there followed a general discussion of the various suggestions made.

Chairman Martin commented that there had been a great deal of discussion of the wording of the Committee's directive and of language

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of the continuing operating policies. As he had indicated before, he did not feel it was practicable to convert meetings of this size into "drafting sessions". In his view, the language changes being suggested did not make a great deal of difference and to a considerable extent represented only a shifting of words.

Mr. Bryan stated that, as indicated by Mr. Sproul's comments, it would seem to be important to debate the substantive matter in the statements of continuing operating policies rather than the language. If the Committee reached a decision that it wished to follow certain policies, Mr. Bryan felt that the matter of language could be taken care of fairly readily.

Chairman Martin agreed with this point of view. He referred specifically to the prohibition in the existing statements of policy against "swap" transactions and asked Mr. Sproul under what circumstances he felt this prohibition should not apply to bills.

Mr. Sproul cited the example of the need of the System account, at times, for January and February bills which could be allowed to run off after the turn of the year, and he also cited a situation in which a corporation might have a need for bills maturing on October 21 in order to meet cash needs that day, but which found that the market was bare of bills maturing October 21 although bills maturing October 28 were in good supply. He could not see how the System account in swapping such near-money instruments would be interfering with arbitrage of the market and the relationships between Government securities of different maturities. To him, this would appear to be making the System portfolio

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contribute to the functioning of the bill market. In response to Chairman Martin's question as to how the System account would find out that the corporation needed the October 21 bills, Mr. Sproul stated that this information would come through dealers who were experiencing a demand for the October 21 bills. The System account would not be taking care of individual corporations; rather, the swaps would be for the purpose of improving the operation of the market. The transaction would, of course, be tied in with the operations of the System account under the credit policy in force.

Chairman Martin said that if the Committee was trying to acquire bills with specific maturities that aided in carrying out policy and an offer to sell such bills came to it through dealers, swapping from one maturity to another could be justified under some conditions. For example, if it wanted January maturities so that they could be permitted to run off when banks would need less reserves because of a return flow of currency and other seasonal factors, swaps might be all right. If, however, the swapping was a result of an attempt on the part of the System account to accommodate dealers or, through dealers, to accommodate individual corporations in adjusting their portfolios, he felt such transactions would put the Committee on dangerous ground. The central bank should keep its transactions on an impersonal basis. It was necessary for the Committee to keep this point in mind all the time, Chairman Martin said, and the Committee should be very careful about any approach which a dealer or a corporation might make for the purpose of showing how a transaction would benefit the System account or the Committee's operations. As Mr. Sproul had said, swaps of bills seemed

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to be a very small matter from the standpoint of affecting the rate relationships, but when it came to using the account to accommodate dealers the Committee would not be justified in risking the criticism that might result. In other words, the advantages of such transactions from the standpoint of monetary policy would be so slight that they might be much more than offset by the violation of the principle involved. It was Chairman Martin's thought that the discussion got back to Mr. Bryan's point that perhaps the Committee should have another full-dress debate on the entire substance of the principle involved in the prohibition against swaps.

Mr. Robertson stated that, as he had indicated earlier, his whole purpose in suggesting a revision in the wording of these statements was to eliminate some of the language which had been misunderstood or misconstrued before, and he had not intended to change the substance of the statements. If the revision as suggested or as modified in discussion did not achieve this purpose, he would be disposed to continue with the statements in the form in which they were approved at the meeting on March 2, 1955.

Chairman Martin said that there was enough disagreement in emphasis and in words to indicate that the Committee should pass over the matter for today and, if it desired, take another look at the statements at a later meeting with a view to deciding whether it desired any change at all in the wording approved at the meeting last March. He suggested, further, that if any of the members of the Committee or other Reserve Bank Presidents wished to have a further discussion of the matter and

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wished to suggest language for the statements, such suggestions be submitted to the Secretary in writing in order that the language could be made available for study prior to the meeting at which the matter was to be discussed.

No disagreement with Chairman Martin's suggestion was indicated.

MINUTES OF FEDERAL OPEN MARKET COMMITTEE (IN PART)

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CONFIDENTIAL (F.R.)

The meeting then recessed and reconvened at 2:20 p.m. on March 4,
with the following attendance:

Mr. Martin, Chairman
Mr. Sproul, Vice Chairman
Mr. Erickson
Mr. Evans
Mr. Johns
Mr. Mills
Mr. Powell
Mr. Robertson
Mr. Szymczak
Mr. Vardaman (latter part of session)
Mr. Young, Alternate for Mr. Gidney

Mr. Riefler, Secretary
Mr. Thomas, Economist
Mr. Rouse, Manager, System Open Market Account
Mr. Sherman, Assistant Secretary, Board of Governors
Mr. Craft, Technical Consultant

Messrs. Gilbert, Leedy, and Williams, Alternate members
of the Federal Open Market Committee

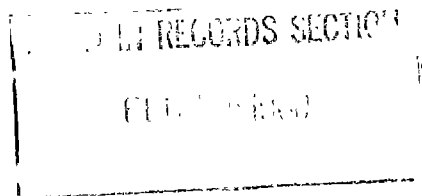
Messrs. Bryan, Earhart, and Leach, Presidents of the
Federal Reserve Banks of Atlanta, San Francisco,
and Richmond, respectively.

Mr. Fulton, First Vice President of the Federal
Reserve Bank of Cleveland

Copies of the report of the ad hoc subcommittee on the Government securities market and of the appendices to the report had been sent to all members of the Federal Open Market Committee and to all Presidents of the Federal Reserve Banks who were not then members of the Federal Open Market Committee on December 29, 1952.

Chairman Martin made a statement substantially as follows:

I would like to start the meeting on the ad hoc subcommittee report on the Government securities market by giving a little background on the report. At the time of the meeting of the executive committee on January 27, 1953, I asked the Presidents of all the Reserve Banks to come in because we had the problem of Treasury financing at our door, and I thought it would be desirable to have them in then for a discussion of our relations with the Treasury. At this time I would like to discuss the report in terms of the System itself, and comment on how the report came about.



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The origin of the ad hoc subcommittee report started when I was still in the Treasury. I saw things from the Treasury side of the picture for about two years during which we had a pegged market in Government securities, which is quite different from a free market. There seemed to me to be quite a bit of misunderstanding in the Treasury as to the extent to which the Federal Reserve should be depended upon to make the market at all times, even if something got outside the peg. As we approached the period when the Treasury-Federal Reserve accord was put together, I am sure there was uppermost in the minds of some of the Treasury people the question whether it was ever going to be possible to have a really free market again. They felt that if we moved in that direction, it was something that would have to be pursued very carefully, and there was some feeling that with a Government debt of its present size, we could never again have confidence in a public market. You all recall the differences of the Treasury and the Federal Reserve and whether the market should be pegged at 1/32 above par and what would happen if it went to 99.

When the unpegging of Government securities came, I was again subjected to many comments on both sides of the picture as to whether we were handling the operation in the best way. It was during that period that was born within me the feeling that we in the System (I was now in the System) ought to make a real investigation of what the market process was, and how we interpreted that process. So I asked the full Committee at its meeting on May 17, 1951 to authorize a subcommittee to explore the operations of the market and our relation to the market. There were many changes taking place, there were refundings by the Treasury, and I was not sure of my judgments in all of the things going on at the time. I talked with many dealers and I found there was a good deal of criticism and doubt. I felt we should consider the question not in terms of any policy matters but in terms of the operations and whether there was developing a market with depth, breadth, and resiliency, to use the phrase that appears in the subcommittee report.

As time went on I thought we should have more experience with the unpegging of the market and the study was delayed until the spring of 1952 when the ad hoc subcommittee got to work. You know the work done, the framing of the questions and the outline, our bringing in of Mr. Craft as technical consultant, of how he presided at the conferences with the dealers, and of how he helped to determine what weight to put on facts and advices given by the dealers. He also gave those of us on the subcommittee an educational experience in dealing with the problem. The conferences with the dealers were extensive and we were slow in drawing our conclusions from those discussions. I do not want to say that any member of the subcommittee or of the staff who worked on the report was particularly influenced by the dealers, but

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it was important to get the reaction of the market to the operation as it was being conducted.

The initial part of the subcommittee report is directed particularly to discussing what the Government securities market is. We have tried to give some perspective in terms of the Federal Reserve System, but the philosophy to which we gradually moved was the desirability of minimizing intervention on the part of the Committee with the market.

We were very much helped in our report by receiving a document from the New York Bank which was studied by all of the members of the subcommittee. I have had individual comments from a number of the Presidents who have now had adequate time to study the ad hoc subcommittee report. I think I speak for all of the subcommittee in saying that none of us approaches this discussion with the feeling that we have the final answers to the problem with which we are struggling, or that this is a problem that you can put down in a one-two-three order. What we are certain of is that this is something that is always at the heart of System operations and that all of us are going to have to continue to study it.

We feel that we should have a minimum of secrecy in the market, but secrecy is different from privacy with which we don't want to interfere. The more people who understand the purposes and ends that the Federal Reserve is trying to achieve in dealing with a securities market that rolls on in time of war, when we use it as a means of inflation for paying for the war, the clearer the picture for all of us. And therefore the greater the chance that we will have depth, breadth, and resiliency in the securities market on a sound basis. You all know the inconsistencies we get into when we talk about a given objective, and how we are going to use the free market--but not too far. That is what we have been grappling with in this report. The subcommittee puts it forth as something we think is crucial in our thinking and objectives, but not as any indication we have come to a final point in our thinking.

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Chairman Martin then referred to the informal discussion at the time of the meeting of the executive committee on Tuesday, January 27, 1953, to which all members of the Board of Governors and all of the Presidents of the Federal Reserve Banks were invited and at which there had been considered that part of the report of the ad hoc subcommittee having to do with relations with the Treasury, as set out on pages 76-78 and on page 86 of the report. Chairman Martin said that, as he recalled the discussion on January 27, the language of a memorandum which Mr. Rouse read at that time on behalf of Mr. Sproul who was unable to attend that discussion, met the spirit of the recommendation of the subcommittee. What the subcommittee had in mind, the Chairman said, was that there should be understanding and cooperation with the Treasury in working on matters of mutual interest. Its specific recommendation in this respect was as follows:

F. Relations with the Treasury

The Subcommittee finds that the Federal Open Market Committee is frequently placed in an inconsistent position by its present practice of initiating advice to the Secretary of the Treasury with respect to decisions in the area of debt management. It recommends that the Committee inform the Secretary of the Treasury that henceforth it will refrain, as an official body, from initiating regularly proposals with respect to details of specific Treasury offerings, and will confine itself officially to providing information currently on its monetary policies and to counseling on the credit and monetary implications of debt management suggestions advanced for its consideration by the Treasury.

The memorandum of Mr. Sproul which had been read by Mr. Rouse on January 27 was as follows:

Like some of the other recommendations in the report, the recommendation with respect to relations with the Treasury is really a recognition of a changed situation; a situation in which we have shed as much as possible of the role of price fixing in the Government security market. So long as we were maintaining

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a pattern of rates, and so long as we were the established underwriters of all Treasury issues, there was a basis for our having some initiative with respect to the terms of the securities issued. The locus of primary responsibility had already been blurred. This was particularly so in view of the attitude of the Treasury toward monetary policy during this period.

Now that we are no longer pegging prices and are trying to shrink our underwriting function, the new approach to relations with the Treasury seems to me, in general, to be the appropriate one.

We do not want to become too doctrinaire about this matter of areas of responsibility, however. With a Federal debt which is so large a part of all debts, public and private, which permeates and dominates to some extent the whole securities market, and which has become a principal medium for adjusting portfolios of financial institutions, and the reserves of banks and others, we are not and won't be wholly free to administer credit policy without regard to the Government security market, and without regard to Treasury financing requirements. It won't be enough to say to the Treasury, here is the credit policy we are going to follow; now you manage the debt. These are areas of overlapping secondary responsibilities and opportunities.

While the Secretary of the Treasury can and should consult with whomever he wants, inside and outside the System, therefore, I don't think we should demote the Open Market Committee to the status of the ABA or the IBA or any other groups or individuals when it comes to debt management. Nor do I think we should commit ourselves to never taking the initiative. We are a statutory public body with public responsibilities in a field closely related to debt management, and there should be a maximum of coordination consistent with the primary responsibilities of the Treasury and the Committee.

It seems to me that it would be consistent with the spirit of the subcommittee recommendation, to have the Chairman and Vice Chairman of the Open Market Committee inform the Secretary of the Treasury

1. Of the desire of the Committee to work with him as closely as possible.
2. Of the intention of the Committee to keep him informed of the credit policies of the System, and particularly of open market policy.
3. Of the willingness of the Committee to have its representatives consult with him concerning credit policy or debt management problems whenever he requests such consultation.
4. Of the intention of the Committee to have its representatives bring to his attention, if and when it seems desirable, matters which may be of mutual interest.

I think this can be done quite naturally, orally with the new people at the Treasury, without in any way perpetuating the situation which the subcommittee seeks to correct.

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There was unanimous agreement that the above quoted recommendation in the report and the statement in Mr. Sproul's memorandum represented the Committee's general approach to the Treasury.

Chairman Martin next referred to recommendation E, Organization of the Open Market Committee, appearing on pages 85-86 of the subcommittee's report. This recommendation related to the "housekeeping" functions of the Committee and read as follows:

E. Organization of the Open Market Committee

The Subcommittee finds many anomalies in the structure and organization of the Federal Open Market Committee, particularly (a) the absence of a separate budget covering its operations, (b) the absence of a separate staff responsible only to the Committee, and (c) the delegation of the management function to an individual Federal Reserve Bank. It recommends that the Committee re-examine and review its present organization, and in particular that it consider the advantages and disadvantages that would ensue, were the Manager of the Open Market Account made directly responsible to the Federal Open Market Committee as a whole, and not, as at present, responsible through the Federal Reserve Bank of New York.

Chairman Martin said that, as the recommendation indicated, this problem had given the ad hoc subcommittee considerable difficulty; the subcommittee did not profess to have the answer and its report presented the question as a continuing problem which should be considered further. He suggested that this recommendation be eliminated from the discussion at this meeting and that the ad hoc subcommittee be continued and instructed to meet with Mr. Sproul at an appropriate and convenient time for the purpose of discussing with him the housekeeping arrangements covered in the report, with a view to determining whether it would be worth while to make further exploration of the subject.

Mr. Sproul stated that this procedure would be agreeable to him.

Thereupon, Chairman Martin's suggestion was approved unanimously.

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At Chairman Martin's suggestion, the Committee proceeded to a discussion of the other recommendations in the report of the ad hoc subcommittee as presented in the summary of conclusions and recommendations on pages 79-85 of the report under the four headings

- A. Relations with the Market
- B. Relations with Dealers
- C. Operating Techniques
- D. Federal Reserve Reports

These recommendations were discussed at three sessions of the Committee, including the one which convened at 2:20 p.m. on Wednesday, March 4, 1953 and which recessed at 4:50 that afternoon; at another session which commenced at 9:30 a.m. on Thursday, March 5, 1953, and recessed at 10:30 that morning; and at a final session which started at 12:10 p.m. on March 5 and lasted until 12:35 p.m. that day.

Mr. Vardaman joined the meeting on the afternoon of March 4 at 3:15 p.m., and the attendance at the three sessions mentioned was the same except that Mr. Evans withdrew at 4:45 p.m. on March 4; and Messrs. Mills, Powell, and Vardaman were not present at the final session which convened at 12:10 p.m. on March 5.

The summary of recommendations by the subcommittee, pertinent parts of the discussion of these recommendations, and the actions taken with respect to each are set forth below in the order in which the recommendations were presented in the ad hoc subcommittee's report.

A. Relations with the Market

Recommendations

The Subcommittee finds that a disconcerting degree of uncertainty exists among professional dealers and investors in Government securities with respect both to the occasions which the Federal Open Market Committee might consider appropriate for intervention and to the sector of the market in which such intervention

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might occur, an uncertainty that is detrimental to the development of depth, breadth, and resiliency of the market. In the judgment of the Subcommittee, this uncertainty can be eliminated by an assurance from the Federal Open Market Committee that henceforth it will intervene in the market, not to impose on the market any particular pattern of prices and yields but solely to effectuate the objectives of monetary and credit policy, and that it will confine such intervention to transactions in very short-term securities, preferably bills. The Subcommittee feels most strongly that it would be wise to give such an assurance.

The Subcommittee finds two outstanding commitments that may require intervention by the Federal Open Market Committee in other than the very short-term sectors of the market, and that may add to or subtract from reserve funds available to the market for purposes other than the pursuit of monetary policies directed toward financial equilibrium and economic stability. These commitments are, first, the directive to the management of the Open Market Account to "maintain orderly conditions" in the market for U. S. Government securities, and second, those arising from the practice of purchasing rights on maturing issues during periods of Treasury financing, and also on some of these occasions of purchasing when-issued securities and outstanding securities of comparable maturity to those being offered for cash or refunding.

With respect to the first of these commitments, the Subcommittee recommends that the Federal Open Market Committee amend its present directive to the executive committee by eliminating the phrase "to maintain orderly conditions in the Government securities market", and by substituting therefor an authorization to intervene when necessary "to correct a disorderly situation in the Government securities market." It has indicated in its report the conditions it would consider sufficiently disorderly to require correction. The Subcommittee recommends also that such intervention be initiated by the executive committee only on an affirmative vote after notification by the Manager of the Account of the existence of a situation requiring correction.

With respect to the second, the Subcommittee recommends that the Federal Open Market Committee ask the Treasury to work out new procedures for financing, and that as soon as practicable the Committee refrain, during a period of Treasury financing, from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange.

The Subcommittee feels that such qualifications as are implicit in these two recommendations would not seriously impair the constructive effect of a general assurance from the Committee that its intervention henceforth will be limited to the effectuation of monetary policies and will be executed in the very short sector of the market. It recommends most

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strongly that such assurance be given as soon as its existing commitments have been appropriately modified.

At Chairman Martin's request, Mr. Craft reviewed the comments in the subcommittee report and particularly in appendix "C" to the report relating to the proposed formulation of a general set of "ground rules" by the Federal Open Market Committee to cover its transactions in the market. Mr. Craft stated that even today many of the more sophisticated people in the Government securities business were still not convinced that the Federal Open Market Committee had abandoned the theory that the Government securities market must continue to be controlled within limits. This was illustrated, he said, by the fact that purchases by the Federal Reserve Bank of New York of Government securities for Treasury trust accounts might be the cause of rumors that the Open Market Committee was "back in the market". Mr. Craft emphasized what he conceived to be the advantages of confining transactions for the System account normally to Treasury bills as a means of permitting greater flexibility in open market account operations, with a minimum of disturbance to prices and yields on longer-term securities. He said that would permit the market (a) to reflect the natural forces of demand and supply and (b) to furnish a signal of the effectiveness of credit policy aimed primarily at the volume and availability of bank reserves. He suggested that in practice acquisition by the Federal Reserve System of any issues except Treasury bills tended to result in a permanently frozen System portfolio and served to restrict flexibility in open market operations for the purpose of effectuating general credit policies. He felt that adoption of a guiding principle that, for normal open market operations, transactions should be confined to Treasury bills would go far toward eliminating the handicaps that attach to intervention by the

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System account in the market. Mr. Craft also brought out the view that it was desirable to limit intervention by the System outside the bill market to periods when it seemed desirable to correct disorderly conditions in the market. It was his view that this was desirable so as to avoid imposing on the market any particular pattern of prices and yields, and he felt that assurances along the lines recommended in the subcommittee's report should be given by making known to the dealers the "ground rules" which would govern System operations in the market. This would mean, he said, that better market behavior could be expected in the technical sense, and the results of credit and monetary policy could be appraised more accurately. While he recognized that Federal Reserve credit policies must be based on many considerations and that they could not be governed by a rigid formula, it was his belief that such policies could best be effectuated under a set of simple rules that are fully understood by all participants in the market.

Following Mr. Craft's statement, at Chairman Martin's request, Mr. Sproul commented on the proposed "ground rules" suggested by the report and on the proposal that some sort of assurance be given to the market by making these general rules known.

Mr. Sproul said that the suggestion for making such ground rules public involved the question whether System operations should be confined to the short area of the market. He felt that such suggestions were based on what had happened in the past, when the System was supporting the Government securities market, and on the situation existing at the moment, where the market apparently still has not, after two years, found out what it might have been expected to find out by observing the System's performance. Formulation and announcement of ground rules along the lines suggested showed, perhaps, too much concern for the dealers in Government securities who naturally

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and properly are primarily interested in the protection of their capital and making a profit on their operations. He thought this situation could not be improved, having regard for our primary interest which is credit policy, by publication of "ground rules"; that a "norm" could be established only by what the Committee did over a period of time. He said that the principal reason why the Government securities market did not have depth, breadth, and resiliency at all times is now due to uncertainties regarding general credit policy and the Treasury's debt management program, rather than because of any concern that the Federal Reserve might intervene in the market, and pointed to the present condition in the market as supporting this view. What the market wants to know, he said, is whether interest rates and, therefore, security prices are going up or down; this is tied in with the whole question of credit policy.

With respect to the proposal for confining open market operations to the short-term sector of the market, Mr. Sproul said that there might be times when the System would wish to intervene in other than the short-term area in order to get direct effects on the availability and cost of credit in the capital market or the mortgage market, as a means of effectuating credit policy. He did not agree that acquisition of longer term securities necessarily meant that the System account would be frozen in as a holder of such securities. And quite apart from what the Committee might decide as a matter of current policy on the suggestion that operations be confined to the short-term area, Mr. Sproul said that public assurance as to the continuance of this policy could not be given to the market, as proposed, without misinterpretation and misunderstanding and without seeming to bind future open market committees, which could not be bound by statements

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made by predecessor committees.

In response to a question from Chairman Martin, Mr. Sproul stated that at the present time he thought it was desirable to operate only in the short-term sector of the market as far as that was possible, but that he could not say what would be desirable next year or two years from now. He could conceive of wanting to operate in the long-term market in terms of credit policy because of the possible effect on interest rates and the availability of funds for investment. He illustrated this by suggesting that a more direct effect might be had on mortgage rates in this manner than by operating in the short-term market. While at the present time there was no argument in the Open Market Committee, that dealing in the short-term market met the needs of the Committee, Mr. Sproul felt that it was unnecessary and undesirable to try to give assurance by publishing "ground rules", for all time to come on this or any other point having to do with credit policy. He did not think the Committee should issue any statement or ground rules which might seem to but could not tie the hands of future committees; and he did not feel assurance of the type suggested in the subcommittee's report was necessary in order to get the desired depth, breadth, and resiliency in the market. This would come, so far as we have an influence, he said, from our actions over a period of time; not from public statements. We should always remember, he said, that while the proper functioning of the Government securities market is most important to the Federal Reserve System, the primary concern of the Federal Open Market Committee is credit policy and the Committee should not try to give assurances which might result in a frozen credit policy.

Chairman Martin said that the idea that the Open Market Committee

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should carry on operations having to do with the supply of reserves by operating in the long-term market was entirely inconsistent with having a good Government securities market, that a dealer could not be expected to stay in the business if he felt that the Federal Reserve in its judgment would attempt to effectuate credit policy by intervening in the long-term market. He said that he was not interested in the Government securities dealer per se but that he was greatly interested in the Government securities market, that over a period of time there must be a reasonably good Government securities market in order that the Committee might effectuate its credit policies, and that while general credit policies which might be adopted by the Committee would affect prices and yields on Government securities, the additional uncertainties that might be caused by the threat of Committee operations on a large scale in long-term Government securities might destroy the market.

Mr. Sproul thought dealers could and would stay in business even though the possibility of Federal Reserve intervention in the long-term market continued; that the subcommittee report made too much of the difference between changes in prices and yields in the long-term market brought about by intervention in the short-term market and similar changes brought about by direct intervention in the long-term market. He also said that he was talking about preserving freedom of action for the Committee in the future. He thought the Committee could say, in season and out, that its purpose and policy now is to effectuate credit policies through supplying or absorbing reserves and not to support any pattern of rates or prices or yields in the Government securities market, but he did not think the Committee could give any other assurance which would be worth while in terms

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of its effect in the market or in terms of what the Committee might or might not do at some future time.

Mr. Bryan stated that there was a fundamental difference between operating in the short-term and the long-term market, that when the Committee operated directly in the long-term market for the purpose of affecting prices it was substituting its judgment for that of the market as to what such interest rates ought to be.

Mr. Sproul responded that whenever the Committee put funds into or took funds out of the market it necessarily affected interest rates and that the Committee must have a judgment as to how its operations would affect the costs as well as the availability of credit whether it operated indirectly or directly on long-term rates. Any form of assurance as to how the Committee would operate in the future would, Mr. Sproul said, tend to bring about a frozen credit policy.

Mr. Szymozak brought up the question that had been referred to by Mr. Craft regarding uncertainties caused in the market by purchases by the Federal Reserve Bank of New York of long-term Government securities for Treasury trust accounts. He wondered whether such purchases should not be distinguished from those made for the System account for the purpose of effectuating credit policy.

Mr. Sproul responded that if it seemed desirable to separate those transactions, there was no reason why that could not be done.

In a further comment on relations with the market, Mr. Szymczak said that there were two questions involved -- the extent to which the Committee might need to operate in the market, and the extent to which it should inform the market where and how it was going to operate. On the first

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question, his own feeling was that the Federal Open Market Committee should go into intermediate and longer-term securities only when that was necessary to correct a disorderly market condition. On the second question, Mr. Szymczak could see no good reason for not informing the market of the general basis on which the Committee would operate.

Chairman Martin stated that he did not think there could ever be a contractual sort of assurance given to the Government securities market by anybody but that it seemed to him to be an unnecessary, disturbing element for those in the Government securities market to feel that such an important element as the open market account might step in and operate directly in long-term securities because it decided to do so. He thought that the Committee would not be making a contract and would be free to change its credit policy on any day if it gave to the market a statement of the general framework within which it intended to operate. The financial community should have such an assurance, he said; there was a misunderstanding of the extent to which the Open Market Committee might "play God".

Mr. Robertson suggested that it might be helpful to have a draft of a statement giving assurance along the lines outlined by Chairman Martin as a means of helping in further consideration of this question, to which Chairman Martin responded that he felt it would be premature at this time to draft such a statement, that what the Committee was seeking was fuller understanding of the market, that it was clear that the whole question needed further study, and that in the course of such a study it might be desirable to draft a statement such as Mr. Robertson suggested.

In further discussion, Mr. Mills said that it was his understanding that the difference of opinion on the proposed ground rules was on

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whether the Committee should give public assurance, that he understood it to be the sense of the group that it agreed with the philosophy of the ground rules, that operation in the short end of the market is the practice that is now being followed, and that this practice should justifiably be continued into the future unless there is a change in the market or in the policy of the Committee.

Chairman Martin commented that Mr. Mills had stated clearly and effectively his understanding of the Committee's views.

Mr. Sproul agreed with Mr. Mills, assuming that he was referring to the present situation in the market and present open market policy, and not to a permanent philosophy with respect to nonintervention in the long-term market.

There was further discussion of the various suggestions made in the subcommittee's recommendations regarding relations with the market in the course of which unanimous agreement was reached on the following points:

1. Under present conditions, operations for the System account should be confined to the short end of the market (not including correction of disorderly markets).

2. It is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

3. Further study should be given by the ad hoc subcommittee to the suggestion that the Committee adopt a continuing policy of confining its intervention in the market to the short-term area, and to the questions whether some type of assurance regarding the Committee's procedure in this respect should be given and, if so, how such assurance should be made available.

4. The directive of the Federal Open Market Committee to the executive committee should be changed to eliminate the phrase regarding the maintenance of orderly conditions in the

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Government security market, and there should be substituted therefor an authorization to intervene when necessary "to correct a disorderly situation in the Government securities market". In approving this change, it was understood that intervention to correct such a situation would be initiated only upon the affirmative vote of the executive committee after the existence of a situation seeming to require correction had come to its attention through notice from the manager of the account or otherwise, but it was recognized that in the event of an emergency, such as an international crisis, it might not be possible to canvass all members of the executive committee before initiating such intervention.

5. It was understood that, pending further study and further action by the Committee, the Committee approved the subcommittee's recommendation that it should refrain during a period of Treasury financing from purchasing (1) any maturing issues for which an exchange is being offered, (2) when-issued securities, and (3) any outstanding issues of comparable maturity to those being offered for exchange.

B. Relations with Dealers

Recommendation

The subcommittee finds no present or prospective justification for continuing the present system of rigid qualifications for dealers with whom the account will transact business, and recommends that the system be dropped.

Chairman Martin stated that the subcommittee felt it would be desirable to eliminate the dealer qualification system as a means of removing any basis for the charge that the Open Market Committee favored certain dealers in Government securities in carrying on its transactions. The subcommittee's thought was that if this were done the manager of the account would then do business on the basis of the best price available in the market.

Mr. Sproul stated that he felt the most satisfactory situation was not to have the present rigid qualification system but to have the manager of the System account given discretion to do business with whatever dealers seemed best suited to carry out the policy of the Committee. He said that as a matter of practical administration as well as of policy it would not

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be possible for the account to do business with anyone who might offer to sell securities to or buy securities from it and that, therefore, the manager of the account should have discretion.

Chairman Martin said that the subcommittee recognized that the manager of the account would have to have some discretion but that it felt that no opprobrium would be placed on anyone if dealings were on the basis of the best price, assuming the dealer was responsible.

Mr. Sproul stated that he agreed with this within the limits of practical administration in ascertaining the best price, and that the logical conclusion was to put the whole matter at the discretion of the manager of the account.

There followed a long discussion of what criteria might be used to guide the manager of the account in his dealings, Mr. Rouse expressing the view that there might be some dealers for whom he would have "personal distrust", or who were not "personally respectable", and that he would not wish to do business with such dealers.

Mr. Sproul did not feel that the element of "personal trust" or "personal respectability" should have anything to do with trading, that it was a question of whether the dealer was "responsible" in the sense that he could carry out commitments.

Chairman Martin stated that what the subcommittee was trying to do was to get away from saying that any individual or firm was precluded from access to the trading desk who was otherwise contributing to the Government securities market. He did not think the account should undertake to do business with someone who only occasionally got into the Government securities market; he did feel that the firm or individual must be in the business

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of dealing in Government securities, and that the executive committee could deal with any problems that might arise in this connection.

Following the discussion, unanimous approval was given to the recommendation that the present system of rigid qualifications for dealers with whom the account will transact business be abandoned, with the understanding that henceforth transactions would be carried on with any persons or firms actually engaged in the business of dealing in Government securities, and that price would be the main criterion for such transactions.

C. Operating techniques

Recommendations

The subcommittee finds that many of the present operating techniques of the account are upsetting to the smooth functioning of the market. In general these techniques were prescribed by the Federal Open Market Committee at a time when it was attempting to peg market prices and yields of United States Government securities. With respect to market techniques, the subcommittee recommends specifically:

- (a) That "reluctant buying" be completely abandoned, and that supporting operations in the market, if undertaken at all, be executed through a technique of aggressive rather than reluctant purchasing.

In response to a question by Chairman Martin, Mr. Rouse stated that the reluctant buying technique had been abandoned but that in his opinion it had been useful in the past and that there might come a time in the future when it would again be useful. In Mr. Rouse's opinion, that technique had been more useful during the period of pegging of Government securities prices than a procedure of "aggressive buying", since the Committee had to consider its willingness to put reserves in the market. On the whole, however, Mr. Rouse felt that it was an undesirable practice and that under present conditions it was desirable to abandon the reluctant buying technique.

Mr. Sproul stated that he would dislike to see the Committee commit itself to a policy of "aggressive buying", rather than "reluctant buying",

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at all times in the future, and that while he had no objection to abandoning reluctant buying--it had already been abandoned--he felt there was no need to go to the other extreme of saying that the Committee would at all times in the future engage in aggressive buying.

Mr. Powell questioned whether the term "aggressive buying" was what was intended for the future, asking whether abandonment of "reluctant buying" did not mean that the Committee would follow "normal" buying procedures.

Mr. Szymczak said that, as he understood it, "aggressive" purchasing had nothing to do with credit policy, that it referred only to the operating technique. He recalled that "reluctant" purchasing had developed at a time when the System was supporting and, later, pegging the Government bond market, and that it had been abandoned with the abandonment of the supports in a pegged market. He assumed that the technique of "aggressive" purchasing would apply to the operating procedure when the Committee found it necessary to go into the market to correct a disorderly condition. In other words, the operating technique would be not to allow a disturbing overhang in the market, but to take a position to carry out whatever the Committee policy was at the time.

Chairman Martin said that as he understood it, Mr. Powell would say that this was "normal" purchasing, and there was no indication of disagreement with this comment.

Following a brief further discussion, it was agreed unanimously that having abandoned the technique of reluctant buying, which was used at times during the period of supported markets, it should not be resumed without further consideration by the executive committee of the Federal Open Market Committee.

- (b) The subcommittee recommends that agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis.

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Mr. Rouse expressed the view that it was much more satisfactory to work with dealers as principals rather than as agents, although there might be times in the future when the Committee would wish to revert to an agency basis. He added that transactions were now conducted with dealers as principals as they were all of a short-term character.

Thereupon, unanimous approval was given to the foregoing recommendation that agency transactions be abandoned and that the account conduct its transactions with dealers as principals on a net basis, with the understanding that if it seemed desirable to do so at some future time the executive committee would consider a proposal to revert to an agency basis.

- (c) The subcommittee recommends that if rights are acquired during refundings they be purchased from dealers without regard to whether or not they come from the dealers' position.

Approved unanimously, it being noted that while the Committee was in full agreement with the spirit of this recommendation, it was inoperative at the present time in view of the fact that, as recorded under No. 5 on page 38 of these minutes, the Committee, pending further study and further action by it, had agreed that it would refrain from purchasing rights on maturing issues during periods of Treasury financings.

- (d) The subcommittee recommends that refusal to buy bills acquired by dealers on a cash basis be discontinued.

Approved unanimously, it being understood that the practice referred to had already been discontinued.

- (e) The subcommittee recommends that nonbank dealers be informed adequately in advance when repurchase facilities will be made available.

Approved unanimously, it being understood that the adequacy of the advance notice would depend on the availability of information indicating to the manager of the System open market account the need for such facilities.

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- (f) The subcommittee recommends that repurchase facilities at an appropriate rate and with appropriate limitation as to volume be made regularly available to nonbank dealers over weekends.

Mr. Rouse said that he had very little sympathy with this proposal, that he felt it would be putting the Committee right back in the business of pegging Government securities to a certain extent. He thought money for the purpose indicated should be obtained through the market as a normal thing and that it should not be available regularly from the Federal Reserve System.

Mr. Mills wondered whether such a procedure would not work out much the same as the discount mechanism does with banks so that nonbank dealers would thus have access to funds the same as bank dealers in Government securities now have access to such funds through discounting. Mr. Mills also suggested that such an arrangement would not put an undesirably large amount of reserve funds into the market and that the procedure would not impose any particular problem on the Open Market Committee.

Mr. Sproul said that it was a question whether the System put credit policy ahead of improving the Government securities market. He felt credit policy should be put first, that this was the reason the System had gotten out from under the peg and away from the position of making reserve funds available to banks at their initiative, rather than at the initiative of the Federal Reserve. Mr. Sproul added that whenever dealers really needed funds over weekends they should get them but it was not desirable to arrange for them to have automatic access to Federal Reserve credit.

Chairman Martin agreed that it was credit policy the Committee was primarily concerned with, but he said that the Committee should not be shortsighted to the extent that it would disregard something that might have a significant bearing on the Government securities market. He thought

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careful consideration should be given to the relative position of bank and nonbank dealers in being able to carry bills, having in mind that modest help to the bill market in this manner might be warranted.

Mr. Sproul responded that if the initiative were retained by the System and discretion were provided by an action of the Committee, the dealers should get funds under repurchase agreements in circumstances where they could not get them outside for the purpose of carrying bills over weekends. However, for the Committee to announce that any dealer could come in over any weekend and automatically obtain funds from the Federal Reserve would relieve the banks of the necessity of taking care of dealers and would set a bad precedent, regardless of whether the amount of credit thus extended was small or large.

Mr. Szymczak doubted the advisability of making Federal Reserve credit automatically available to nonbank dealers through repurchase agreements, just as he felt it was undesirable to make Federal Reserve credit available to member banks at their initiative. He felt, however, that dealers had a right to expect to be able to get funds through repurchase agreements when they needed them.

Mr. Craft said that he was concerned about the increasing reluctance of dealers to bid in the weekly offerings of bills, that those with whom the subcommittee conferred last summer complained unanimously regarding their inability to carry a position in bills.

Mr. Sproul suggested the possibility of the Treasury changing the days of the week on which bills are bid for and delivered so that the dealer problem of carrying bills over the weekend might not bulk so large.

Chairman Martin said that there was a real problem in connection with this recommendation of the subcommittee and suggested that the

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subcommittee be requested to review it further in terms of the problem of orderly markets and of making reserve funds available on an automatic basis.

This suggestion was approved unanimously.

Recommendations

The subcommittee finds that relations between the Open Market Account and the dealers are not as impersonal as is desirable now that the Committee is no longer trying to peg prices and yields on Government securities by maintaining a tight rein on the activities of dealers.

- (a) It recommends that the Open Market Account make known to the dealers the "ground rules" which henceforth will govern the occasions for its transactions with dealers.

It was agreed unanimously that, as indicated by the action taken in connection with the subcommittee's recommendation as to giving an assurance under "Relations with the Market", further study should be given to this recommendation. In taking this action, it was understood that the subcommittee would consider the matter in terms of what ground rules might be agreed upon, and whether and how such rules might be made known.

Mr. Szymczak stated that his understanding of the foregoing action was that there had been conclusive agreement that, unless changed by the Committee, operations would be conducted in accordance with the practices set forth in the "ground rules"; this action, therefore, related to how the import of such rules should be made known to the public.

- (b) The subcommittee recommends that the individual morning dealer conference be abandoned.

Mr. Rouse stated that he could not understand the reason for the suggestion that the morning conferences be discontinued, that they were more convenient for the dealers and for the representatives of the account than if appointments were not made, that the conferences had been useful to both the manager of the account and the dealers, that no dealer had to attend a conference, that the dealers had been the ones who had sought the meetings

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in this manner. Mr. Rouse went on to say that while he found the conferences very useful, he would not want any dealer to feel that he was not being treated fairly, and that he would be glad to terminate the present arrangements for the conferences and permit them to start over if the dealers wanted them on their own initiative.

Thereupon, unanimous approval was given to the subcommittee's recommendation, it being understood that if any dealers wished to continue the morning conference, it would be on the dealers' initiative.

- (c) The subcommittee recommends that the information obtained by the trading desk from dealers be so restricted as to eliminate the possibility of identification, directly or by inference, of individual customers.

This recommendation was approved unanimously, Mr. Rouse noting that the recommended practice was one which he had been trying to follow.

- (d) The subcommittee recommends that reports on individual dealer positions and activity be collected by an officer of the System other than the manager of the account, that the individual reports be kept confidential, and that only aggregates compiled from the individual dealer reports be disclosed to the manager of the account.

At Chairman Martin's request, Mr. Rouse commented on this proposal stating that to the best of his knowledge the information received had never been used to the disadvantage of any dealer, that the information on individual dealers' positions was most helpful to the manager of the account and that to take it from him would be like asking him to handle the account "with one hand tied behind him", that the information was supplied voluntarily, and that he felt it should continue to be made available to the account manager.

In response to a question from Mr. Sproul as to whether there was widespread objection from dealers to giving this information, Chairman Martin said that the recommendation was not based on the views of dealers so much as the feeling of the subcommittee that it would be a protection to the manager of the account against any charge of misuse of the information.

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Mr. Sproul then said the information is most useful from time to time, and that aggregates which might conceal individual long and short positions would not be so useful and could be misleading. He suggested that, if the information were furnished on a voluntary basis, there should be no objection to its collection, and Chairman Martin agreed.

Mr. Bryan felt that it was important to have the information available in aggregate form and that there might be a real question whether voluntary reports would provide satisfactory totals.

Mr. Sproul suggested that it be understood that, if the dealers were willing to furnish the reports on a voluntary basis, there would be no objection to continuing to collect the information in that manner.

Mr. Sproul's suggestion was approved unani-
mously. In taking this action, it was understood
that if the reports received on a voluntary basis
did not seem to provide satisfactory aggregates,
further study would be given by the executive com-
mittee to the question of the reporting procedure.

- (e) The subcommittee recommends that the present practice of asking dealers to report transactions currently during the trading day in sufficient detail to permit the computation of current individual dealer transactions sheets be discontinued.

Mr. Rouse stated that it was not and had not been the practice of the New York Bank to ask dealers to report during the trading day in sufficient detail to permit computations of current individual dealer transactions. He said that traders on the desk do receive information on supplies of securities in the market which goes to the manager of the account and to the Committee's staff in Washington as a basis for judging the state of the market. Sometimes that information indicates that supplies are from savings banks or commercial banks, but ordinarily the information is of a general nature only.

There was unanimous agreement with Chairman Martin's statement that there appeared to be no objection to the practice described by Mr. Rouse; and that the practice referred to in the subcommittee's recommendation should be avoided.

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Recommendation

The subcommittee finds that there is a serious gap in the structure of the money market as it affects the functioning of the market for Government securities. Continuously in recent months, funds available to dealers to carry portfolios have been inadequate in volume and available only at rates higher than the yield of their portfolios. This deficiency could not exist so continuously in a central money market equipped (1) to attract temporary idle funds from over the country to New York, and (2) to make these funds available on call to dealers in the money market. The subcommittee recommends that the feasibility of re-establishing a central call money post for dealers be explored.

Approved unanimously.

D. Federal Reserve Reports

Recommendation

The subcommittee finds that the Federal Reserve System can improve the data which it makes available to inform the market on its operations. It recommends that the following information be shown henceforth on the weekly condition statement of the Federal Reserve Banks:

- (a) Securities held on repurchase agreement.
- (b) Special certificates of indebtedness held by the System.
- (c) Weekly averages of member bank borrowing.

In response to a question by Mr. Rouse, Chairman Martin and Mr. Craft stated that the idea of publishing such additional information had the general approval of the dealers with whom the subcommittee conferred last summer on the grounds that the segregation of repurchase figures would be helpful and should be a part of the information regularly made available through System publications. It was stated, however, that one of the 17 dealers who commented on the suggestion expressed hesitancy in having the information on repurchase agreements published, his feeling being that publication of the data might be open to misinterpretation.

Mr. Sproul stated that if the dealers did not object to disclosure of the extent to which they were using Federal Reserve credit in carrying bills, the Committee should not object.

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Mr. Robertson felt that the information should be made public even though there were objections on the part of some of the dealers.

Thereupon, the subcommittee's recommendations regarding the weekly condition statement of the Federal Reserve Banks were approved unanimously.

This concluded the consideration of the recommendations in the report of the ad hoc subcommittee. In a discussion of the procedure to be followed in connection with the actions that had been taken, Chairman Martin suggested that the staff be instructed to review the actions and report on the steps that would be necessary in the way of changing directives or issuing new directives to carry out changes in procedures agreed upon. It was understood that this procedure would be followed.

Mr. Bryan stated that he was somewhat disappointed in the discussion of the subcommittee's report because he felt there had been an inadequate discussion of the problems and underlying philosophies involved. He said that he might wish to send to the individual members of the Committee a memorandum expressing his personal views on some of the underlying points which he felt had not been clearly or completely dealt with.

Chairman Martin stated that the Committee would be glad to receive from Mr. Bryan or any other member of the Committee or any President of a Federal Reserve Bank who was not now a member of the Committee additional comments he might wish to submit in writing.

Chairman Martin, in referring to the assistance which Mr. Craft had given to the ad hoc subcommittee in its work, stated that he would like to have it understood that Mr. Craft would be continued as a consultant so that his services would be available in the future work of the subcommittee from time to time.

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This suggestion was approved unanimously and, at Mr. Evans' suggestion, it was agreed that Chairman Martin should express the appreciation of the Federal Open Market Committee to Mr. Craft's employer, Guaranty Trust Company of New York, for the services he had given in connection with the study of the Government securities market.

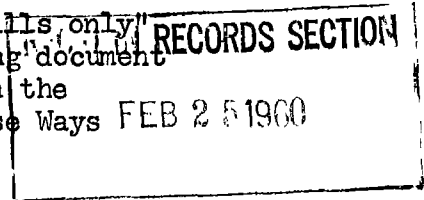
Mr. Robertson suggested that it be understood that recommendations in the subcommittee report on which final action had not been taken be studied further by the subcommittee and brought before the Federal Open Market Committee. It was understood that this suggestion would be carried out.

Thereupon the meeting adjourned.

Secretary

CONFIDENTIAL (F.R.)

The following memorandum on issues of "bills only" was prepared in the Treasury as a briefing document for Secretary Anderson in connection with the interest ceiling hearings before the House and Means Committee (Executive Session).



Bills Only Policy

Argument

The Federal Reserve "bills only" policy should be abandoned.

Comments

(1) The so-called "bills only" policy is essentially an operating technique for creating or absorbing bank reserves with a minimum direct effect on interest rates and prices of Government securities. In view of the fact that by far the greater portion of the System's operations are to meet short-run changes in the reserve position of the banking system, it is clearly desirable that most of the System's open market operations be confined to short-term securities.

(2) Federal Reserve officials have stated that this operating procedure is not an inviolable technique; that they stand ready to deal in longer-term securities--and, indeed, have done so--when conditions are appropriate. Four such instances included purchases in November 1955 and July 1958 in connection with Treasury financings, and in August 1959 and February 1960, in connection with Treasury refundings in which the System elected to exchange a portion of its holdings for the longer of two securities offered by the Treasury.

(3) To those who would argue that additional dealings in longer-term securities would be desirable, one might appropriately inquire as to the specific circumstances. There are some who would advocate that the System should under current conditions purchase long-term Government

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bonds and sell shorter-term issues, in order to promote lower long-term interest rates without contributing to a net increase in bank reserves. To these observers I would point out that such operations would further distort the interest-rate structure, which has already been distorted by heavy Treasury borrowing on short term which has helped push most short-term interest rates higher than long-term rates, as a result of the interest rate ceiling. It would not seem appropriate to me to attempt to ease long-term interest rates by increasing the already heavy pressure on the short-term market, thereby favoring long-term borrowers and discriminating against borrowers in short-term markets. Moreover, this technique could only serve to pull more long-term investment money into short-term securities, thereby impeding the flow of funds into business expansion (which is so important to long-term economic growth), State and local government projects, and into mortgages.

(4) I am informed that there is a sizable group of economists who would advocate the reverse of this procedure; namely, that the Federal Reserve should stand ready to sell long-term bonds in periods of strong business activity, in order to dampen a capital spending boom. But surely, in view of the pressing need for achieving some lengthening of the maturity of the public debt, it would be preferable for the Treasury to engage in whatever modest amount of cash sales of long-term bonds would be appropriate during a period of strong business activity, rather than for the Federal Reserve to saturate such market demand as may exist for long-term bonds.

(5) There are some who would argue that the Federal Reserve should have purchased a sizable amount of long-term bonds during the recession

-3-

of 1957-58. Admittedly, this was a close question of judgment at the time. But hindsight seems clearly to have vindicated the decision of the Federal Reserve not to purchase long-term securities. It is very doubtful that recovery would have come any quicker than it did, or have been any stronger. And it seems clear that System purchases of bonds under those conditions by pushing bond prices even higher, would have engendered an even greater degree of speculation in the Government bond market than actually developed and, as we all know, such speculation was especially severe.

(6) Mr. Chairman, there is no doubt in my mind whatsoever that the Federal Open Market Committee stands ready at all times to deal in securities of any maturity, and that the so-called "bills only" policy has been misinterpreted as an ironclad rule prohibiting such operations. Thus the pragmatic question is: When would such operations be appropriate and desirable? Reviewing the history of the past few years, it seems clear to me that when such operations were appropriate, the System was quite willing to engage in them. I think the same will be true in the future.

Redraft of Present Statement of Continuing Operating Policies of the Federal Open Market Committee

a. It is the policy of the Committee to ~~intervene in the~~ Government securities market only for the purpose of providing or absorbing reserves in order to effectuate the objectives of monetary and credit policy (except when action is necessary for the correction of disorderly markets). It is not the policy of the Committee to support any pattern of prices and yields in the Government securities market.⁷

REC'D IN RECORDS SECTION
FEB 24 1960

b. Except in the correction of disorderly markets, and in such other instances as are specifically authorized by the Open Market Committee, operations for the System Account in the open market shall be confined to short-term securities where there will be the least interference with market forces, and during a period of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturities to those being offered for exchange.

c. Transactions for the System Account in the open market shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio.

d. Such policies are general guides and therefore may be superseded or modified at any time by further action of the Federal Open Market Committee.

Redraft of Present Statement of Continuing Operating Policies of the Federal Open Market Committee

IN RECORDS SECTION
FEB 25 1960

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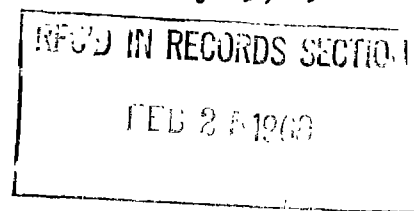
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d. Such policies are general guides and therefore may be superseded or modified at any time by further action of the Federal Open Market Committee.

JLR:2/24/60

February 19, 1960

Memorandum to Members and Alternate Members
of the Federal Open Market Committee and
to Presidents of the Federal Reserve Banks
not on the Committee.



From Mr. Mangels.

A review of the ad hoc committee report of 1953, and of the minutes of the Federal Open Market Committee meeting which considered the policy recommendations in March of that year, reveals a sharp difference from the current situation in respect to both the position of the Federal Reserve System and the Government securities market. The ad hoc report was prepared while the System still followed some practices established during the war, and the Treasury accord was a still recent phenomenon. It was natural, under the circumstances, to find a strong reaction away from any operation resembling pegging rates and to offer assurances publicly to revitalize a free market in Government securities. This is 1960 and we have had sufficient experience with fluctuating interest rates, and the Government security dealers enough experience with us, so that our general attitude as to the nature of the market we desire to promote is well known. Under these circumstances, more flexibility in our published statement of policy is warranted, and it is less likely to be misinterpreted. A reasonable alternative to a full-dress revised statement of policy is to be preferred, as we do not desire to signal a major shift. One such alternative would be to combine this statement with the directive. This arrangement would have the further advantage of being explicitly reconsidered at each meeting of the Federal Open Market Committee. An explanation as to the omission of the annual policy statements in our published reports could be to the effect that policy is expressed in the directive adopted at each meeting, such policy being applicable to the period until the next meeting of the Committee.

Specifically, it is suggested that the present paragraph (1) of the directive be changed to (2), and paragraph (2) be changed to (3), with a new

Memo. to FOMC
From Mr. Mangels

2/19/60
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paragraph (1), as follows, expressing the policy as determined at the meeting at which the directive was approved:

Thereupon, upon motion duly made and seconded, the Committee voted unanimously to direct the Federal Reserve Bank of New York until otherwise directed by the Committee:

(1) TO EFFECTUATE THE OBJECTIVES OF MONETARY AND CREDIT POLICY BY PROVIDING OR ABSORBING RESERVES THROUGH OPERATIONS, FOR THE SYSTEM ACCOUNT IN THE OPEN MARKET, CONFINED TO SHORT-TERM SECURITIES (EXCEPT IN THE CORRECTION OF DISORDERLY MARKETS); (IF THE CURRENT OR INTERVENING PERIOD WILL BE ONE OF TREASURY FINANCING, INSERT HERE "DURING THE PERIOD OF TREASURY FINANCING THERE SHALL BE NO PURCHASES OF (1) MATURING ISSUES FOR WHICH AN EXCHANGE IS BEING OFFERED, (2) WHEN-ISSUED SECURITIES, OR (3) OUTSTANDING ISSUES OF COMPARABLE MATURITIES TO THOSE BEING OFFERED FOR EXCHANGE.") PURCHASE AND SALE TRANSACTIONS FOR THE OPEN MARKET ACCOUNT SHALL NOT BE CONDUCTED TO SUPPORT ANY PATTERN OF PRICES AND YIELDS IN THE GOVERNMENT SECURITIES MARKET, NOR SHALL TRANSACTIONS INCLUDE OFFSETTING PURCHASES AND SALES OF SECURITIES FOR THE PURPOSE OF ALTERING THE MATURITY PATTERN OF THE SYSTEM'S PORTFOLIO;

(As indicated above, present paragraph (1) would become paragraph (2). Assuming that the Committee would be agreeable to the amended clause (b) proposed by Governor Balderston at the February 9, 1960, meeting of the Committee, paragraph (2) would read as follows.)

{1} (2) To make such purchases, sales, or exchanges (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the

Memo. to FOMC
From Mr. Mangels

2/19/60
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open market or, in the case of maturing securities, by direct exchange with the Treasury, as may be necessary in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to ~~restraining-inflationary-credit-expansion-in-order-to-foster-sustainable-economic-growth-and-expanding-employment-opportunities~~ FOSTERING SUSTAINABLE GROWTH IN ECONOMIC ACTIVITY AND EMPLOYMENT WHILE GUARDING AGAINST EXCESSIVE CREDIT EXPANSION, and (c) to the practical administration of the Account; provided that the aggregate amount of securities held in the System Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than \$1 billion;

(Present paragraph (2) would become paragraph (3) without change.)

~~(2)~~ (3) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate \$500 million.

15/60

Proposed Revised Statement of
Continuing Operating Policies
of the Federal Open Market Committee

FOUO IN RECORDS SECTION

FEB 25 1960

1. Open market operations authorized by the Committee in the Government securities market are carried out with the goal of furnishing the banking system with reserves which will permit it to provide monetary resources in amounts appropriate to a healthy, growing economy possessed of an honest unit of currency.

2. Open market operations shall, with the exception discussed below, be conducted entirely in outstanding securities of less than one year maturity, not involved in an exchange offer, and not of a maturity comparable to a maturity involved in an exchange offer, except upon express authority of the Committee.

3. The Account Manager will inform the Committee of market conditions which he believes require a temporary deviation from this general operating policy.

4. The Committee will intervene in the market for other securities whenever it feels that it can usefully do so to offset purely temporary effects which do not, in its opinion, fairly represent the true state of supply and demand for loanable funds. Such intervention will normally not exceed a period of two months and the portfolio will be returned to the normal all-shorts position within two months from the date of first intervention.

5. The Committee will not authorize longer holding of other securities because it does not intend to lend continued artificial support to any pattern of prices and yields. Such continued artificial support would amount to a deliberate distortion of the free market and an allocation of investment funds by fiat.

DRAFT
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2/17/60

CURRENT INSTRUCTIONS AT EACH MEETING

REC'D IN RECORDS SECTION

FEB 25 1960

Until the next meeting of the Open Market Committee, the System Open Market Account is directed

(1) To conduct operations with the view to fostering sustainable growth in economic activity and employment, while guarding against excessive credit expansion.

(2) To make such purchases and sales of U.S. Government securities and bankers' acceptances, including exchanges and runoffs of maturing issues, and including repurchase contracts, as may be necessary to maintain a volume of member bank reserves that will cover temporary variations in the availability of and need for reserves, including such increase or decrease in currency in circulation as may occur and at the same time permit a growth in the total volume of bank reserves at the rate of about \$30 million a month (after allowance for customary seasonal variations).

(3) At no time shall the aggregate amount of securities in the System Account (excluding those held under repurchase contracts) be increased or decreased by more than \$500 million, shall the total amount of special certificates purchased directly from the Treasury exceed \$500 million, or shall the total amount of bankers' acceptances held by all Federal Reserve Banks (excluding those held under repurchase contracts) exceed \$75 million.

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2/17/50

STANDING INSTRUCTIONS FOR SYSTEM OPEN MARKET OPERATIONS RECORDS SECTION

FEB 25 1960

1. Transactions in United States Government securities for the System Open Market account, in bankers' acceptances by the Federal Reserve Banks, and purchases and sales of Government securities under repurchase contracts with dealers in securities shall be entered into for the purpose of providing or absorbing reserves of member banks and maintaining such reserves at amounts necessary for the needs of commerce and business in the light of the general credit situation of the country.
2. Transactions, unless otherwise authorized by the Committee, shall be limited to purchases and sales (on a cash or regular delivery basis) of short-term U.S. Government securities (issues maturing in less than two years) and of bankers' acceptances maturing in 90 days or less (including acceptances payable in foreign currencies), replacement of maturing securities through exchanges directly with the Treasury, redemption of maturing securities, and repurchase contracts against short-term U.S. Government securities or bankers' acceptances for periods of 15 days or less (provided that such repurchase contracts shall be at a rate below whichever is the lower of (1) the discount rate of the Federal Reserve Bank on eligible commercial paper, or (2) the average issuing rate on the most recent issue of three-month Treasury bills.
3. The Federal Reserve Bank of New York may in its discretion purchase special certificates of indebtedness directly from the United States in such amounts as may be needed to cover overdrafts in the general

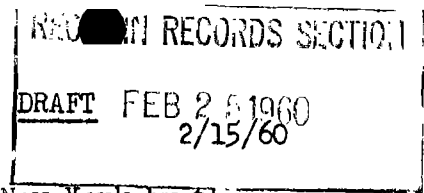
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account of the Treasurer of the United States on the books of such Bank or for the temporary accommodation of the Treasury, but such Bank shall take all steps practicable at the time to insure as far as possible that the amount of obligations acquired directly from the United States and held by it, together with the amount of such obligations so acquired and held by all other Federal Reserve Banks, does not exceed \$5 billion at any one time.

4. All such transactions shall be reported to the Federal Open Market Committee in the weekly reports of the Manager of the Account.

5. It is the policy of the Committee during periods of Treasury financing to avoid operations which may have the effect of altering the availability of reserves in the market relative to current needs or changing prices and yields of Government securities, particularly of issues directly involved in the financing operations or of outstanding issues of comparable maturities. It is the policy of the Committee not to support any pattern of prices or yields in the Government securities market. Exceptions to these general operating policies may be made at any time upon express authority of the Federal Open Market Committee.

6. Any operations involving purchases and sales of different securities at approximately the same time without altering the total amount of the portfolio (except to the extent appropriate to supply or absorb reserves in accordance with No. 1 above) shall be engaged in only for the purpose of improving the distribution of securities in the System Account and not for the purpose of influencing the structure of prices and yields of securities, except as may be specifically authorized by the Committee.



Directive issued to the Federal Reserve Bank of New York by the
Federal Open Market Committee at its meeting on March 1, 1960

The System Open Market Account shall operate either in the open market, or, in the case of maturing securities, by direct exchange with the Treasury.

Its primary purpose is to supply funds in the market in amounts appropriate to the needs of commerce and business, both current and prospective.

Standing instructions

(1) Unless specifically authorized by the Open Market Committee for temporary and emergency reasons, the Account shall operate in short-term securities. Short-term here signifies maturities within two years.

(2) Within this range of maturities, the Account may engage in "swaps" for the purpose of balancing maturities with the account needs.

(3) The Account may engage with dealers in repurchase agreements having maturities of 15 days or less.

(4) The Account may purchase directly from the Treasury for the account of the Federal Reserve Bank of New York (with discretion to invite the participation of one or more Federal Reserve Banks) such amounts of such short-term certificates of indebtedness as may be necessary for the temporary accommodation of the Treasury, provided that the total amount of such certificates held at any one time by all the Federal Reserve Banks shall not exceed \$500 million.

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Instructions for the immediate future

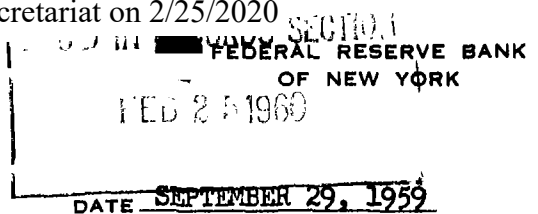
Until the next meeting of the Open Market Committee, the System Open Market Account is directed

(1) To seek to foster sustainable growth in economic activity and employment, while guarding against excessive credit expansion.

(2) Except for such special short-term certificates of indebtedness as may be purchased from time to time for the temporary accommodation of the Treasury, the aggregate amount of securities held in the System Account shall not be increased or decreased by more than \$1 billion.

(3) Except as money market conditions require a departure therefrom, the Account shall use as a target a net borrowed reserve figure of \$300 million. It is the expectation of the Committee that this target may provide for growth of currency in circulation and of required reserves at a weekly rate of about \$20 million.

CONFIDENTIAL (FR)



OFFICE CORRESPONDENCE

TO MR. RALPH YOUNG (BOARD OF GOV.)FROM JOHN J. LARKINSUBJECT: SUGGESTIONS RELATED TO OPEN MARKET
OPERATIONS RECEIVED IN TREASURY-FEDERAL
RESERVE STUDY

CC: Mr. Robert Mayo (Treas. Dept.)

In the course of the consultations held in connection with the joint Treasury-Federal Reserve Study of the Government Securities Market some of the consultees made suggestions related to operating practices in the conduct of System open market operations. These suggestions were generally received without solicitation on the part of the Study Group. No effort was made by the Study Group to treat with the merits of the suggestions on the spot. The consultees were advised that their comments would be given careful consideration.

The suggestions received are listed below. The listing does not purport to deal with matters other than the technical aspects of open market operations. Opinions expressed on technical or operating matters related to other fields are not considered here.

The System should consider making reverse repurchase agreements, i.e. sell securities to dealers with an agreement to repurchase at a stated price on a future date. This suggestion is designed to provide a tool to the System Account Management to absorb or offset a temporary reserve redundancy without having to sell bills outright (when the System has no repurchase agreements outstanding that can be run off or terminated). This suggestion carries with it the implication that a reverse repurchase agreement would have less effect on the securities market than would outright sales followed within a short period of time by outright purchases. It was also suggested that this technique might help to relieve the scarcity that develops in certain Treasury bill maturities.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE SEPTEMBER 29, 1958

TO MR. RALPH YOUNG
FROM JOHN J. LARKIN

SUBJECT: SUGGESTIONS RELATED TO OPEN MARKET
OPERATIONS RECEIVED IN TREASURY-FEDERAL
RESERVE STUDY

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The securities held in the System Open Market Account should be available for lending to dealers, the same as certain commercial banks lend Government securities to dealers against equivalent collateral and for a stated fee (usually 1/2 of 1 per cent per annum). It is claimed that dealers would be able to make better markets (particularly on Treasury bills) if they could borrow securities temporarily from the System Open Market Account.

The System should consider making swaps in Treasury bills since open market purchases sometimes bring about an unusual scarcity in certain issues and limit the ability of dealers to make markets. It was claimed that these situations could be relieved through System swaps of Treasury bills.

Representatives of dealer-banks recommended that they should be advised when System repurchase agreements are made with non-bank dealers. They claimed that the mere making of System repurchase agreements could have an influence on market prices and that dealer banks should not be penalized by virtue of their non-access to the repurchase agreement facility.

The System should consider making repurchase agreements on U. S. Government securities maturing within five years rather than limit such agreements to securities maturing within 15 months, as is currently the case.

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RESERVE STUDY

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The Account Management is attempting to be too precise when using repurchase agreements in dealing with the reserve situation. It was suggested that the Management should make a final decision earlier in the day as to the acceptance or rejection of dealers' requests for repurchase agreement accommodation. This, it was said, would permit dealers to know where they stand in connection with their residual financing needs. It was also suggested that the amount of System repurchase agreements on a given day should not be measured so finely, since this instrument is directed toward the short-run reserve situation and does not really effect long range policy objectives. It was noted that the Account Management should not be concerned with releasing through repurchase agreements an amount of reserves, say \$50 million, in excess of what might appear to be the desired total because these are temporary funds similar to reserve changes deriving from float.

It was suggested that there be a review of the confidentiality that dealers are expected to attach to day-to-day transactions with the System Open Market Account. It was claimed that some dealers readily inform their customers whenever the System Account is in the market. Other dealers regard this disclosure as a breach of confidence but find that they are placed in an awkward

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and embarrassing position when their customers indicate full knowledge of the timing of open market operations and, on occasion, the estimated magnitude. Indeed, one non-dealer consultee was of the opinion that detailed information on System open market operations should be publicly released through the ticker service on those days that the System Account is in the market.

None of the above suggestions represents a preponderance of opinion expressed in the Study. Each suggestion represents comments of one or only a few consultees, generally dealer representatives. Some of the above points have been set forth in Part I of the published report on the Study. They have not been evaluated by the Study group and are listed here so that they might be brought to the attention of the Federal Open Market Committee. The Committee may wish staff members and/or the Manager of the Account to review the merits of each point.

No attempt was made in the above listing to deal with suggestions encountered in the Study that relate to other Federal Reserve System matters. These would include the comments of some consultees who were of the opinion that speeches, public statements or meetings with representatives of the press by Federal Reserve (and Treasury) officials were sometimes disruptive market influences when they attempted to deal with monetary or fiscal policy matters. It was suggested that such pronouncements be held to a minimum and that official actions and statistics be permitted to speak for themselves.

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Following further discussion in the light of the alternative suggestions referred to and of Mr. Leedy's comments, Mr. Sproul's motion that clause (b) of the directive be changed to delete the word "actively" so that the clause would read "to promoting growth and stability in the economy by maintaining a condition of ease in the money market" was approved by unanimous vote. In taking this action, it was understood that the Committee contemplated a gradual reduction in the amount of ease in the market without approaching a policy of restraint.

In a reference to his suggestion that the executive committee might instruct the Manager of the System Open Market Account to operate on the "feel" of the market, Mr. Sproul stated that Mr. Bryan must have misunderstood the suggestion when it was first made. His thought, Mr. Sproul said, was that the Manager might be instructed by the executive committee to take into account the "feel" of the market as well as the volume of free reserves, money rates, and other factors. In other words, "feel" was to be only one of the factors to be considered in determining open market operations within whatever limits were prescribed by the full Committee and the executive committee.

In response to a question from Chairman Martin, Mr. Rouse stated that he had no suggestion for change in the limitations in the directive to be given by the full Committee to the executive committee.

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the wording of the directive had shown little or no change over considerable periods of time even though there were major changes in policy. Subsequent to 1951, he noted, the Committee had decided that it was preferable to spell out a little more definitely the policy to be followed between meetings and, since it now seemed to be the consensus that the Committee contemplated a change in policy, even though it was to be ever so mild and ever so gradual, he felt it desirable that a change be reflected in the wording of the directive.

Mr. Leedy said that he would be somewhat disturbed by a change in the directive which eliminated all reference to ease, and which would provide only that operations were to promote growth and stability in the economy. To make the directive so general in nature would be to return to the type of directive that Mr. Sproul had mentioned had been used a few years ago; such a directive would provide no definite guide to the executive committee but would be so broad in its terms that it would never need to be changed no matter how policy might change. Mr. Leedy questioned the desirability of resuming the use of directives so general in nature. On the other hand, he felt that since some change in policy was contemplated, a change should be evident in the wording of the directive and he, therefore, would be inclined to favor Mr. Sproul's motion.

Chairman Martin stated that he was impressed with the points made by Mr. Leedy and that, while he felt the general purpose of the Committee was to promote growth and stability in the economy, it probably would be undesirable to change clause (b) of the directive so that it provided only for this objective.