

REC'D IN RECORDS SECTION

MAY 4 - 1961

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 3, 1961.

TO: Federal Open Market Committee

FROM: Mr. Sherman

This memorandum has been prepared in accordance with the discussion at the meeting of the Federal Open Market Committee on April 18, 1961, and is for the purpose of assisting in clarifying the action taken by the Committee on March 7 regarding the three continuing operating policy statements listed on the agenda for that meeting under topic 5. The agenda listing was the same as that used for the first meeting in March of each year beginning in 1954, namely, "Review of continuing operating policies."

In opening discussion of the topic on March 7, Chairman Martin referred to the study that had been going on regarding these policy statements and to the suggestion that the matter be tabled in order that everybody might have an opportunity to review and study carefully all of the material compiled.

After Mr. Young had commented on the study and various suggestions for revision of the policy statements, Chairman Martin noted that all draft material would be distributed. He then said that unless there were general comments, he would suggest that further consideration of the subject be tabled until a later meeting.

It seemed clear at the March 7 meeting that Chairman Martin was suggesting that the customary yearly review of the operating policy statements be tabled until there had been more time for study and consideration of possible changes in them. All members of the Secretary's staff understood this to have been the case, and the minutes were written with a view to reflecting such a conclusion.

Mr. Hayes later suggested that the statement in the second paragraph on page 8 of the March 7 minutes reading

"..it was agreed to table the consideration of the possible changes in the operating policy statements"

be changed to read

"..it was agreed to table the consideration of the question whether to renew the existing operating policy statements or to make changes therein."

The Secretary did not feel at liberty to make this change because it implied a substantive change from the action believed to have been taken

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at the March 7 meeting. That is, the language of the proposed change could mean that, if affirmative action had not been taken by the Committee to "renew" or change the operating policy statements, they would cease to exist. Since the word "renew" did not appear in the agenda listing, since that word was not used by Chairman Martin in presenting the matter for discussion, since the operating policy statements had no automatic terminal date but continued in effect until superseded or modified by action of the Committee, and since the record of the February 7 meeting does not disclose any intent to terminate the operating policies but rather an intent to give a special authorization for an experimental program of operations in longer-term securities and for swaps, it was believed that any wording which could imply that the operating policy statements had ceased to exist because they had not been "renewed" would give an inaccurate impression of what the Committee intended at the March 7 meeting.

Some further indication of the earlier intent of the Committee is to be found in the minutes of the meeting on March 28. The sentence beginning in the bottom line on page 46 reflects Chairman Martin's comment that the Ad Hoc Subcommittee, on motion by Mr. Mills, seconded by Mr. Irons, recommended "that consideration of a revision of the Committee's three statements of operating policies again be tabled....." On page 52 of those minutes, line 7, the Chairman is quoted as saying, "The recommendation of the Subcommittee also contemplated tabling further consideration of any change in the Committee's operating policies....." This, along with the rest of that sentence, clearly implies that the Chairman assumed the operating policy statements had not themselves been changed, even though there had been since February 7 a special authorization effective from meeting to meeting that relieved the System Account of the restrictions against operations in other than short-term securities or against swaps.

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At the meeting on April 18, 1961, the Committee approved the minutes for the March 7 meeting in the revised form that had been distributed, with the understanding that the comments made by Mr. Hayes would be included in the minutes for April 18. Nevertheless, it would be possible for the Committee to reopen the question of the wording about which Mr. Hayes raised a question. If, for example, it is not felt that the present wording clearly indicates that the thing the Committee tabled was the review of these three statements of operating policy, the action described in the second full paragraph on page 8 of the March 7 revised draft could be changed to say "There being no further comments, it was agreed to table the review of the three operating policy statements."

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One more comment seems appropriate. If and when the Committee abandons or supersedes the three continuing operating policy statements that have been in existence since March 1953, such action should be clearly understood and expressly recorded in the minutes. An entry covering such an action for inclusion in the policy record to be published in the Board's Annual Report to the Congress should be based on a high fidelity narrative of what the Committee decided and why.