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To Federal Open Market Committee

October 16, 1964

From Robert W. Stone

Subject: Mr. Bopp's Questions
at the F.O.M.C. meeting
of September 29, 1964.

At the last meeting of the Federal Open Market Committee, Mr. Bopp said, in connection with the proposals of Messrs. Ellis, Mitchell and Swan for a more quantitative instruction to the Desk, that the Manager might be asked to ascertain the range of free reserves within which he might reasonably be asked to come. Mr. Bopp suggested that he might also be asked what additional technical tools or information might be made available so as to increase the Desk's ability to achieve Committee desires.

On the first point, a strictly technical answer might be given in terms of recent experience with weekly free reserve data. It might be noted, for example, that in 15 of the first 38 weeks of 1964 the first published free reserve figures differed from the final figures by \$40 million or more. In 9 weeks the differences were at least \$60 million while in two cases they were over \$80 million. This would not tell the whole story, however, since the Desk actually has no means of influencing the average for a week ending on a particular Wednesday after some point on that Wednesday; at that time the figure could be revised because of unanticipated developments on that day or because of other revisions that would be learned about by the next day, when the first published figure would be reported. Comparing the expected weekly free reserve averages as of Wednesday, adjusted for System actions that day, with the final published figures, one finds 22 differences of \$40 million or more in the first 38 weeks of 1964; there were 10 differences of \$60 million or over, 8 over \$80 million and 4 over \$100 million. In some weeks these latter sets of differences would overstate the "misses" since the Manager may have had some indication of a probable revision that might affect the week then drawing to

a close. Even so, the conclusion would suggest itself from recent experience that if one sought to be within a particular range, say, 75 per cent of the time, the range should be well over \$100 million--perhaps more like \$150 million.

It is likely that speedier information on member bank required reserves and vault cash could reduce the extent of subsequent revisions and make possible a somewhat closer adherence to narrow reserve ranges. The initial results of early reporting by a sample of 300 country banks seem to offer particular promise in this regard. Additional help in meeting targets might be derived from the use of new tools for reserve adjustment--such as reverse repurchase agreements. There is a real question, however, whether the results of prompter reporting and additional open market tools should be used merely to sharpen the Desk's ability to hit numerical targets. Given the changing intensities of usage of reserves throughout the banking system, it seems preferable to permit, and perhaps to encourage, free reserves to move up and down with some latitude, to accommodate short-term money market developments. In this connection it might be noted that in the first 34 weeks of 1964 (i.e., up to the August 18 policy shift) free reserves averaged \$120 million. In 12 of those weeks, the weekly average deviated from the central value by over \$60 million. In some cases it would have been desirable, if possible, to have avoided wide departures in the figures that were also associated with aberrant money conditions--but in other instances the preservation of some degree of consistency in money market conditions called for sizable swings in the statistics of net reserve positions.