

Conduct of Open Market Operations of  
Federal Reserve System

1. Our basic position is that the Federal Reserve Bank in the principal national and international money market of the country, and the principal market for Government securities, should continue to be selected by the Federal Open Market Committee to execute transactions for the System Open Market Account, in accordance with policies and directives adopted by the Committee, and in behalf of all of the Federal Reserve Banks.

2. Our reasons for attaching the greatest importance to this position are:

First, it is in accord with the federal character of the System and its general operating procedures. National credit policies are primarily determined by the Board of Governors of the Federal Reserve System and by the Federal Open Market Committee, and the execution of these policies is primarily the job of the twelve Federal Reserve Banks each operating in its own area. By reason of the financial structure of the country, the Federal Reserve Bank of New York is the natural and logical Federal Reserve Bank to execute open market operations for the Federal Open Market Committee.

Second, it provides institutional responsibility as distinguished from individual responsibility for the proper execution of the directives of the Federal Open Market Committee. This means that the Manager of the System Open Market Account, in his supervision of open market operations, has the advantage of the active and continuous collaboration of the President of the Federal Reserve Bank of New York who is a member of the Federal Open Market Committee, of the First Vice President of the Federal Reserve Bank of New York who is an alternate member of the Federal Open Market Committee, and of his subordinate staff, all on an institutional basis.

Third, it provides the natural and logical way of keeping under unified direction the various operations of the Federal Reserve System in the New York market, all of which contribute to the proper functioning of the System and to the success of its credit policies. All central banking operations in the New York market are interwoven - discount operations, Treasury operations conducted by the New York bank as

fiscal agent, open market operations conducted for account of foreign central banks and governments, as well as open market operations for System Open Market Account. The money market is not made up of separate compartments and all of these various kinds of transactions need unified direction. It would be destructive of money market techniques and of the effectiveness of the New York bank, built up over the life of the Federal Reserve System, to introduce another arm of the System into the New York market, in the person of a separate Manager of the System Open Market Account.

Fourth, while it establishes a method of operations which is wholly responsive to the policies and directives of the Federal Open Market Committee, a statutory public body, it does not directly expose the operating arm of the Committee to those forms of political pressure, as distinguished from public responsibility, which can be destructive of the independence and operating integrity of our central banking system.

3. Having stated this basic position, we also recognize that the Federal Open Market Committee has a basic responsibility with respect to the selection and appointment of the Manager of the System Open Market Account, and that it is appropriate for the Committee to review its discharge of that responsibility. While the record of performance, and the absence of specific criticism of actions of the Account as it has been managed, suggest that the present method of selection and appointment of the Manager has worked well in practice, it may be possible to devise a procedure which will reflect more clearly the authority and responsibility of the Federal Open Market Committee with respect to that appointment, and thus abate internal dissatisfaction with present arrangements and ward off possible external criticism, political or otherwise.
4. To promote the mutual objectives of the Federal Open Market Committee and the Federal Reserve Bank of New York, it is suggested that:

- (a) The Federal Reserve Bank of New York continue to be selected by the Federal Open Market Committee as the Federal Reserve Bank to execute transactions for System Open Market Account.
  - (b) Before appointing a Vice President of the Securities function of the Federal Reserve Bank of New York, which is the function which conducts open market operations, the directors of the Bank should consult with the Federal Open Market Committee, and there should be agreement between the Committee and the directors as to the appointment.
  - (c) The Federal Open Market Committee should then appoint the same individual as Manager of the System Open Market Account.
5. The lines of appointment to the dual job would then be clear, but the institutional responsibility of the Federal Reserve Bank of New York would be preserved and the destructive effects of having two arms or two representatives of the Federal Reserve System operating in the New York market would be avoided.

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