

OFFICE CORRESPONDENCE

DATE February 5, 1952.

TO: Mr. Sproul
FROM: H. V. Roelse

SUBJECT:

Last week Ralph Young called to talk about their final work on the Patman Subcommittee questionnaire and the hearings scheduled for next month. He said that Bill Martin's present inclination was to take the position that he had no first-hand knowledge of Treasury-Federal Reserve relations prior to developments leading to the "Accord" of last March, and consequently preferred not to undertake any discussion of differences between the System and the Treasury up to that time.

Ralph said that the result might be that if the Committee wished to pursue the matter, they would turn to you for answers since you were Vice Chairman of the Open Market Committee throughout the postwar period. He said that Woody Thomas had prepared an alternative and much more detailed answer to question F-29, which calls for discussion of the fundamental issues between the Treasury and the Federal Reserve System between the end of the war and the "Accord" of last March. He also referred to a summary of Federal Reserve recommendations to the Treasury which had been prepared by the Board's staff, and said that he thought I could get copies of both from Woody. I then talked to Woody and received the attached material late last week.

Perhaps the summary of Federal Reserve recommendations and related financial events would be useful if you were questioned on this general subject. It would take a pretty thorough review of the Open Market files and related files to see whether the summary prepared by the Board's staff omits anything of consequence, so far as the positions and recommendations of the Open Market Committee are concerned. But in any case, it should be possible to fill in a good deal of information under the heading of "Related Financial Events", such as developments

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in the business and credit situation, and perhaps reference to positions taken by System representatives at Congressional hearings, if you think you would find this type of summary useful.

As for the alternate draft of answer to question F-29, the main point that struck me was the continued effort to maintain the fiction that increases in reserve requirements in recent years served the purpose of absorbing reserves created through the System's support of the Government security market, and the omission of any reference to the fact that, in every instance, the increases in reserve requirements led to increased sales of Government securities to the System.

HVR.LS
Att.