

OFFICE CORRESPONDENCE

DATE May 13, 1954TO Mr. Roelse

SUBJECT: _____

FROM Allan Sproul

At recent meetings of the Executive Committee of the Federal Open Market Committee the following argument has been made.

"Our estimates of future reserve positions are too uncertain to place great reliance upon them and it is urgent, therefore, that the System maintain a level of free reserves which will provide a substantial cushion on the downside against forecasting errors even if this means occasional/large surpluses of free reserves on the upside. This would mean that sufficient funds would be available to the commercial banks so that they will seek loans actively. Bank security investment at longer term has probably gone about as far as would be permitted by prudent portfolio management so that the banks could be put under increased pressure to seek additional loans rather than having the funds siphoned off into intermediate and longer term Treasury securities."

I would like to have a discussion of this argument, perhaps participated in by Mr. Gaines who has been present at the meetings where it has been presented.

AS:ES