

Boys

Dillon 33
Memorandum
File

January 31, 1961

MEMORANDUM FOR THE PRESIDENT

In preparation for tomorrow morning's meeting, I am attaching a memorandum prepared by Bob Roosa giving the background of the Federal Reserve "bills usually" policy.

The essence of the matter seems to be that the policy was correct when originally adopted but that the Federal Reserve probably was overly cautious in moving away from it in the last year or two when it was no longer as appropriate. However, the movement toward a new policy now seems to be successfully under way. Since the Federal Reserve is apparently prepared to initiate this change of its own volition, it would seem advisable to avoid any public implication that they are taking these new steps as a result of outside pressure.

In extending Federal Reserve operations into the longer term markets, it is important to realize that there are limitations to what can be accomplished. Such operations by the Federal Reserve can help in moving a stagnant market in the desired direction or in strengthening a trend already under way. It cannot, however, successfully reverse the direction of any pronounced trend in the market without falling into the unacceptable position of attempting to peg interest rates.

Signed
Douglas Dillon

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Attachment

CDDillon/ep