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Heller #19

October 18, 1962

MEMORANDUM FOR THE HONORABLE WILLIAM McC. MARTIN

Since our meeting on Tuesday afternoon, I have given further thought to the problem of implementing a somewhat easier monetary policy, and I thought it might be worthwhile to record some reflections on the subject.

1. As you know, the Council believes that improved attitudes toward the dollar, plus the stubborn sluggishness of the domestic economy, make some move toward greater monetary ease highly desirable. Especially since no further action can be expected on the fiscal front for many months, our reliance on the monetary instrument to bridge the gap is unusually great.
2. Therefore, we are gratified at your projected move in the direction of greater ease.
3. However, we feel it may be preferable to reactivate vigorously the policy of open market purchases of long-term Treasury securities that was put into effect last year. Such a policy would put direct downward pressure on the long-term interest rates that are crucial for domestic economic activity. To the extent that such purchases produced declines in the short-term rates that are important for balance-of-payments reasons, the effects could be offset by sales of short-term securities from the System portfolio. Such a policy could be conducted forcefully and at the same time could be continuously adjusted to changing financial and economic conditions. I hope you and your colleagues on the Board will weigh this line of action as an alternative to a reduction of reserve requirements.
4. If a reduction in reserve requirements is put into effect, we hope that it will be followed by further measures to supply reserves in response to the seasonal increase in credit demand, so that it will result in a net longer-term stimulus through addition to the credit supply.