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THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

Confidential

August 18, 1964

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MEMORANDUM FOR THE PRESIDENT

Subject: A Slight Turn of the Monetary Screw

1. Bill Martin called me this evening to say that the Open Market Committee today moved, by a narrow majority, to slightly tighter money.
2. Specifically, they are cutting their "free reserve" target from \$100 million to \$50 million.
3. The basis for the move is the balance-of-payments preliminary "flash" figures for July and August indicate a considerable deficit. The idea is to cut down just a bit on available funds and firm up short-term interest rates a bit to discourage outflows of funds.
4. Bill said that there was considerable difference of opinion on the Open Market Committee as to whether this would really have the intended result, and he added that no one has firm proof one way or the other.
5. He also noted that they are going to keep this very quiet, so that "the market"
 - won't know that it's being done
 - won't begin to read into it any fears by the Fed of overheating on the domestic front.
6. My own judgment is that it's too small a change to do much good on the international front, and, as it gradually leaks out, it may lead -- at least temporarily -- to slight jitters on the domestic front.
7. Bill says if it does, they could quickly reverse it.
8. My feeling is that it would have been better not to do it in the first place, though I admit it's a close question.

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Walter W. Heller

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