

REC'D IN RECORDS SECTION

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM MAR 26 1956

March 23, 1956

Federal Open Market Committee

Agenda Topic 6, FOMC Meeting

Mr. Riefler, Secretary

March 27

Letters have been received from the Presidents of eight Federal Reserve Banks commenting on the proposal for a re-examination of continuing operating policies or procedures of the Committee, to be discussed under topic 6 of the agenda for the meeting on March 27, 1956. The comments in these eight letters may be summarized as follows:

1. Three Presidents would discontinue the statements of continuing operating policies providing that operations be confined to short-term securities, that transactions in securities involved in a Treasury financing be avoided, and that "swaps" be avoided; instead, statements on these points that might be approved by the Committee at each meeting would be placed in the directive issued to the Agent Bank.

2. Five other Presidents would make no change in the statements of continuing operating policies at this time, although several believe that some form of re-examination of the substance of the statements should be undertaken

3. One President (included in the group referred to in "1" above) suggests that a fundamental reconsideration of these policies or procedures, based on three years of experience, be undertaken. This would be done by naming a committee of men in the System who have not been too closely identified with the debate over the policies in question. They should not be members or prospective members of the Committee. Their report would include material based on answers to questionnaires sent to persons outside the System, as well as material based on their own knowledge and on System records. The Federal Open Market Committee then would discuss whether the continuing operating policies were to be retained, abandoned, or modified. Only when this internal study has been submitted to the Committee would it consider the question of whether and what sort of hearings should be held by the full Committee.

4. One President suggests that it would be a waste of time to undertake a study such as is proposed under "3" unless those who propose a change in the existing procedure or wording of directives had first presented memoranda to all members of the Committee for study. Such memoranda by those proposing change should include specific examples showing where the existing policies had caused difficulties.

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5. Another President feels it would be inconclusive and dangerous to create another committee of the Open Market Committee or a subcommittee of staff to study matters of substance involved in the policies referred to. This is partly because of a belief that if the results did not concur with the conclusions of the Agent Bank, that Bank could be expected to take the matter to the field of public debate with resulting confusion. This President also feels Committee procedure should not be adopted because value judgments are involved even in a study of these questions, which require full Committee debate rather than assignment of the task to a smaller committee. He proposes that if the substance of the statements is to be debated, all members of the Committee be notified well in advance of the time of debate; each Committee member prepare himself for the debate; and the debate should then proceed to consider various specific questions at issue such as:

(a) Under what circumstances should transactions for the System account be conducted in other than short-term securities?

(b) Under what circumstances should the System make purchases of maturing issues for which an exchange is being offered? What circumstances, since the original adoption of our policy statement, would, in the opinion of the Agent Bank, have been best handled by the purchase of maturing issues?

(c) The same questions with regard to when-issued securities.

(d) The same question with regard to outstanding issues of comparable maturities.

(e) The same questions (and others) with regard to operations other than for the purpose of providing or absorbing reserves.

After this debate, the Committee would be in position to determine whether the standing instructions should be affirmed annually or at every meeting of the Committee, or whether there should be no such standing instructions or merely a gentleman's agreement with the Agent Bank. The Committee would then be in position to determine whether it wanted general rules of procedure, and the implications of not having such rules. It also could analyze whether such policy statements inhibit the Committee and create inflexibility.

6. Another President doubts the advantage of restudy of these matters at this comparatively early date. However, the Committee might request a group to examine in detail and report to the Committee by about January 1, 1957, specific instances when departure from the "bills only" and "nonintervention" policies would have been appropriate and what should have been done in each case in contrast to what was done. The group should also report at that time on how the present procedure has inhibited the Committee from adopting a different procedure to counter each situation.

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This President also suggests that a study group might be requested to observe future developments and to raise at every opportunity the question whether to deviate from the stated procedures.

7. Another President, who would make no change now in the continuing operating policy statements and who believes that, on the whole, the "bills only" theory works very well, feels that it would be desirable to study the bill buying record over the period of the last three years in an attempt to determine whether less disturbance to the Government securities market would have resulted from purchases of other short-term Government securities than bills. He suggest that, while such a survey of operations in the open market account would be in order, the survey should include statements not only from money market bankers and dealers but from a broader group of commercial bankers.

8. Another President who would not now change the existing statements of policy doubts that anything would be gained by having them called up for discussion at every meeting of the Committee. He believes that sufficient experience has accumulated, however, to justify a rigorous review, analysis, and evaluation of the operations of the Open Market Committee during the past few years, by persons from within the Federal Reserve System, with reference to the policies in question.

On the basis of these letters, three questions seem to be presented for consideration by the Committee:

1. Whether the existing statements of continuing operating policies should be changed to delete those parts which confine operations to short-term securities, avoid transactions in securities involved in a Treasury financing, and prohibit "swaps", such action to be taken with the understanding that these matters would be considered at each meeting of the Committee. If statements concerning them were approved by the Committee, they would be included in the directive issued to the Agent Bank.

2. Whether, as recommended by Mr. Sproul, a subcommittee of staff not identified with the current matters at issue be set up to examine these questions.

3. Whether the members of the Committee or other Reserve Bank Presidents who feel that operations would have been improved by deviation from the continuing operating procedures under discussion should submit for discussion by the full Committee statements of specific instances where such deviations would have been desirable. Such discussion would be preliminary to a possible subsequent referral of concrete questions of fact to specialists for comment. (The memorandum distributed by Mr. Sproul under date of March 21, 1956, subsequent to the writing of the letters summarized above, falls partially into the latter category although it does not discuss isolated instances in detail.)