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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

September 28, 1961.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

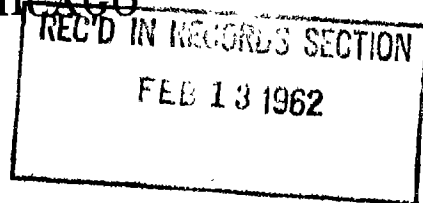
There is enclosed a copy of a letter and two exhibits relating to possible changes in Committee procedures, which was the subject of my letter of September 6, 1961. In accordance with the understanding at the meeting on September 12, this material is being distributed for study, prior to further discussion of the subject at a later meeting of the Committee.

*Ralph A. Young*  
Ralph A. Young, Secretary,  
Federal Open Market Committee.

Enclosure

# FEDERAL RESERVE BANK OF CHICAGO

OFFICE OF THE PRESIDENT



September 27, 1961

Mr. Ralph A. Young, Secretary  
Federal Open Market Committee  
Board of Governors of the  
Federal Reserve System  
Washington 25, D. C.

Dear Mr. Young:

This refers to "Discussion of changes in the Committee's procedures," the subject of your letter of September 6, 1961, and to the agreement at the meeting of the Committee on September 12, 1961, that comments by Committee members should be sent to you for distribution. Accordingly, I address this letter to you.

In an effort to suggest procedures which might meet with the approval of a majority of the Committee I enclose two exhibits, both based on the Committee meeting held September 12, 1961. Exhibit A is a suggested directive to the Federal Reserve Bank of New York which I believe could have been issued at the conclusion of that meeting. Exhibit B is a suggested policy record for the meeting of September 12, 1961; you will note that the first paragraph of Exhibit B would include the directive, that is, Exhibit A.

Needless to say, I have used the September 12 meeting for purposes of example only, because I realize that changes in our present procedures, if any, will be deferred pending further Committee discussion.

My suggestions as incorporated in the enclosed exhibits envision abandonment of existing operating procedures and policies. Because the Committee meets at three-week intervals I feel that there is no further need for formal agreement on such procedures or policies,

FOR FILES  
Ralph A. Young

Mr. Ralph A. Young, Secretary  
Federal Open Market Committee

September 27, 1961

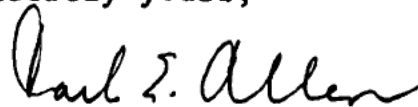
however desirable that may have been at one time. Further, it seems needless to make pious pronouncements annually which represent either a paraphrase of statutes or policies which the Committee at least occasionally decides to disregard. It will be noted that the suggested directive, Exhibit A, does not restrict the maturities of United States Government securities which the Federal Reserve Bank of New York would be authorized to buy and sell. Thus it would eliminate the need for the special authorization which a Committee majority has approved at each meeting since February.

It will be noted also that I have included in the suggested directive authorization for the Federal Reserve Bank of New York to buy and sell bankers' acceptances. The inclusion of such authority in the directive seems more appropriate than the current annual authorization, for the reason that we presumably operate in acceptances as a part of open market operations authorized by Section 14 of the Federal Reserve Act. However, I have not included in the suggested directive authority for repurchase agreements in bankers' acceptances and securities; these could continue subject to annual authorization.

Let me repeat that I have prepared the enclosures in an effort, among other things, to meet what I construe to be the present attitude and conviction of a majority of the Committee, and at the same time to offer forms of directive and policy record which would be understandable to the layman.

In order to facilitate distribution to others I enclose thirty copies of this letter and the two exhibits.

Sincerely yours,



Encs.

**DIRECTIVE ISSUED BY THE FEDERAL OPEN MARKET COMMITTEE  
TO THE FEDERAL RESERVE BANK OF NEW YORK SEPTEMBER 12, 1961**

RECORDS SECTION  
FEB 13 1962

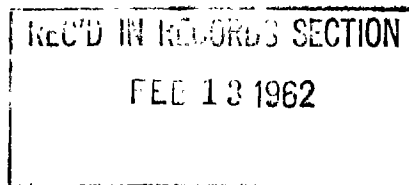
It is the Committee's judgment that ~~essentially the same~~ degree of ease which has prevailed in the money and credit markets since the last meeting of the Committee should continue until the next meeting or until the Committee determines otherwise, and the Committee directs the Federal Reserve Bank of New York until otherwise directed by the Committee:

(1) To make (a) such purchases and sales of prime bankers' acceptances and (b) such purchases, sales or exchanges of United States Government securities (including replacement of maturing securities, and allowing maturities to run off without replacement) for the System Open Market Account in the open market or, in the case of maturing securities, by direct exchange with the Treasury, as may appear necessary to effect the aforementioned judgment, provided (a) that the aggregate amount of bankers' acceptances held at any one time by the Federal Reserve Bank of New York shall not exceed \$75 million, and provided further that such holdings shall not be more than 10 per cent of the total of bankers' acceptances outstanding as shown in the most recent acceptance survey conducted by the Federal Reserve Bank of New York and (b) that the aggregate amount of securities held in the System Account (including commitments for the purchase or sale of securities for the Account) at the close of this date, other than special short-term certificates of indebtedness purchased from time to time for the temporary accommodation of the Treasury, shall not be increased or decreased by more than \$1 billion;

(2) To purchase direct from the Treasury for the account of the Federal Reserve Bank of New York (with discretion, in cases where it seems desirable, to issue participations to one or more Federal Reserve Banks) such amounts of special short-term certificates of indebtedness as may be necessary from time to time for the temporary accommodation of the Treasury; provided that the total amount of such certificates held at any one time by the Federal Reserve Banks shall not exceed in the aggregate of \$500 million.

Allen suggestion

EXHIBIT B



POLICY RECORD

September 12, 1961

AUTHORITY TO EFFECT TRANSACTIONS IN SYSTEM ACCOUNT

The Federal Open Market Committee issued to the Federal Reserve Bank of New York the following directive:

See EXHIBIT A

Votes for this action: Messrs. - - - - -  
- - - - - Votes against this action: None.

In determining that it would be appropriate for essentially the same degree of ease in the money and credit markets which had prevailed since the last meeting of the Committee to continue for a further period, the Committee was influenced primarily by the state of the domestic economy, the Treasury's financing program, and the international situation.

The over-all expansion in economic activity had continued, but without acceleration, and there was as yet no evidence that consumer spending or expressed intentions to spend would dramatically increase. Unemployment remained at 6.9 per cent of the labor force. Business loans, which normally increase in August and early September, had thus far risen in no more than seasonal proportions. Note was taken of the increased liquidity in various sectors of the economy, financial institutions in particular, and of the need to be alert to market developments on the expansionary side which, if they developed, might require prompt re-evaluation of monetary policy.

The Treasury's financing program, which called for the raising of \$5 billion in cash between the date of the meeting and mid-October, and the serious state of international problems, were also factors in the Committee's decision that no change in the existing degree of monetary and credit ease was in order pending further developments.