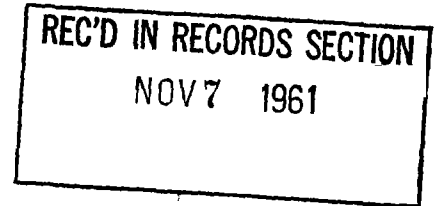




BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON



November 7, 1961.

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Mr. Young

There is enclosed a copy of a letter from the Federal Reserve Bank of Dallas commenting on proposed changes in operating procedures and directive of the Committee.

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

Enclosure



WATROUS H. IRONS  
PRESIDENT

FEDERAL RESERVE BANK  
OF DALLAS

REC'D IN RECORDS SECTION  
FEB 13 1962

November 1, 1961

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

Dear Ralph:

In response to Chairman Martin's suggestion made during the Open Market Committee meeting of September 12, 1961, I am submitting below my views concerning the substance of the standing operating procedures and policies of the Committee. For the sake of clarity and some brevity, I shall address my comments to each of the Attachments which accompanied your memorandum dated September 6, 1961.

Attachment I

Standing Rules Governing Open Market  
Practice of the Federal Open Market Committee

I would accept your draft statement of this Attachment with the following reservations:

In the prefatory statement of the Attachment, I would change lines 8 and 9 to read as follows:

"economic activity and employment, sustainable growth, stability of the price levels, and a ~~strong position in the world economy~~ SOUND INTERNATIONAL POSITION OF THE DOLLAR . . . . ."

It seems to me that the suggested statement with respect to the international position of the dollar, while certainly broad enough is not quite as broad in all of its implications as the statement in your draft, namely, "a strong position in the world economy."

Rule 1 - In my opinion, line 2 should be changed to read as follows:

"absorb bank reserves OR FOR SUCH OTHER PURPOSES AS THE COMMITTEE CONSIDERS consistent with the credit and monetary . . . . ."

FOR FILES  
Ralph A. Young

- 2 -

There are times when Open Market operations may be conducted for purposes other than absorbing or supplying bank reserves. During the past several months, in our attempt to prevent too great a decline in short-term rates, we have engaged in operations which were not conducted for reserve reasons. I think it is a mistake to set up a rule as rigid as the statement in your Attachment.

As an alternative to my suggestion above, I would support a statement of Rule 1 substantially as follows:

"Open Market operations shall be conducted for the purpose of carrying out the domestic and international objectives of monetary and credit policy."

Rule 2 - The only suggestion I have with respect to your statement of Rule 2 is that "short-term issues" should be defined in the Rule. I have no fixed number of months in mind, but I would be agreeable to a continuation of the 15 months or less that we have used, or, on the other hand, I would be willing to lengthen the period to, perhaps, 18 to 20 months. In any event, it would avoid confusion and contribute to clarity if the definition were included.

Rule 3 and Rule 4 - I have no criticism with respect to these Rules. Rule 3 does introduce the question, perhaps obliquely, of the effect of Open Market operations on interest rates. I don't object to your statement of the Rule, but I wonder whether it might be desirable to insert between the first and second sentences of the Rule, something to the effect -

"ALTHOUGH SUCH OPERATIONS MAY TEND TO INFLUENCE RATES OF INTEREST."

I do not feel strongly on this point, but thought it might be considered.

Rule 5 - This Rule, as stated, applies only to one purpose for which "swaps" might be undertaken. We believe that your statement of Rule 5 should be broadened by making the last line of the Rule read as follows:

"portfolio, OR FOR OTHER REASONS, ARE UNDERTAKEN ONLY UPON THE AUTHORIZATION OF THE COMMITTEE ~~are ordinarily not undertaken.~~"

Rule 6 - We would suggest only the minor change in connection with this Rule to delete the words "from time to time" from the second line of the Rule.

Rule 8 - We would not include in the Standing Rules a statement regarding Committee meetings. Also, we would remove your Rule 5 and Rule 6 from the Standing Rules and include the two Rules as stated in the Continuing Authority Directive to the Federal Reserve Bank of New York. This change would shorten the Standing Rules and we believe would place the substance of Rules 5 and 6 in proper position in the Directive to the New York Bank.

- 3 -

Attachment II

Federal Open Market Committee's Continuing Authority  
Directive to the Federal Reserve Bank of New York

Other than the transference of Rules 5 and 6 to Attachment II, we have no reservations regarding its content.

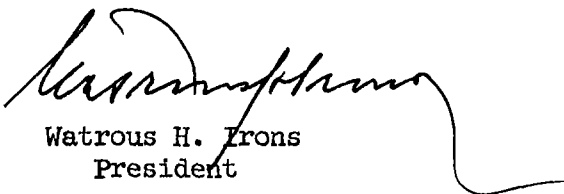
Attachment III

Current Economic Directive

We believe that if a change is made from the present type clause (b) directive and statement, an attempt should be made to spell out a current economic directive in some detail to the Manager of the Account. We continue to believe that a directive of the type included in our memorandum of February 28, 1961 may have possibilities. Such a directive would be written following the Open Market Committee meetings by the Secretary of the Committee and the Manager of the Account. These officials would be guided by their observations as to what had been said in the meeting, together with a summarization of the consensus as presented orally at the meeting by the Chairman. Such a written directive could be approved the afternoon of the meeting by the Chairman of the Committee and forwarded to the members. I am not sure how much improvement we can effect in making our directive concise, nor am I confident of being able to reduce a directive to some sort of precise formula. If there is to be any change, I lean to the side of appreciably more detail rather than less.

With cordial regards.

Sincerely yours,

  
Watrous H. Irons  
President