



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

June 3, 1955.

CONFIDENTIAL (FR)

Attached are three memoranda relating to matters to be considered by the Federal Open Market Committee at the meeting to be held on Wednesday, June 22, 1955.

- a. Memorandum with respect to a proposal by Mr. Robertson regarding repurchase agreements.
- b. Memorandum with respect to proposed revisions of several continuing operating policies of the Federal Open Market Committee.
- c. Memorandum from Mr. Vest with respect to possible changes in the wording of the directive from the Federal Open Market Committee to the executive committee.

The first two memoranda relate to topics which were discussed at the meeting of the Committee held on March 2, 1955 and which it was understood would be taken up again at the meeting to be held in June. The discussion of repurchase agreements appears on pages 40 and 41 of the minutes of the March meetings while the discussion of the statements of continuing operating policies appears on pages 48 to 53. The third memorandum is a result of the discussion at the meeting of the full Committee held on May 10, 1955, particularly pages 8 to 12.

These memoranda are being sent to you at this time in order that you may have ample opportunity to study them before the meeting to be held on June 22.

Very truly yours,

Winfield W. Riefler
Winfield W. Riefler, Secretary
Federal Open Market Committee.

Enclosures

REC'D IN RECORDS SECTION

JUN 6 1955

June 3, 1955.

TO: Federal Open Market Committee
FROM: Mr. Riefler

Subject: Agenda Material, FOMC Meeting 6/22/55
Repurchase Agreements

Quoted below is a statement made by Mr. Robertson at the meeting of the Federal Open Market Committee held on March 2, 1955, with respect to the use of repurchase agreements covering United States Government securities:

Observation of our use in recent months of repurchase agreements with dealers in Government securities leads me to believe that it is a device that can be used effectively in our work. Consequently--and notwithstanding my doubts as to the legality of this instrument--I propose that the Committee continue to use repurchase agreements where considered advisable, not as a supplementary technique in the regulation of credit, but admittedly for the purpose of enabling dealers in Governments to maintain broad and ready markets.

It would be appropriate to utilize and police this procedure in a manner similar to rediscount operations--an open window for carrying dealers at rates preferably above but in no event below the discount rate--in order to assist them in sustaining a closer and more continuous market. Dealers should feel assurance that the facility is always available to them within reasonable limits (perhaps dollar or percentage figures), as the discount window is open to member banks. Needless to say, the operation of a dealer's window of this nature would be subject to such policing as may be necessary to avoid its abuse by any dealer, or any use that unduly interferes with our general credit policies.

As indicated in the minutes of the March 2 meeting (pages 40-41), it was understood that Mr. Robertson's suggestion regarding repurchase agreements would be given further consideration at the June meeting of the full Committee.

CORDS SECTION

JUN 6 1955
June 3, 1955.

TO: Federal Open Market Committee

Subject: Agenda Material, FOMC Meeting 6/22/55

FROM: Mr. Riefler

Continuing Operating Policies

Following is a statement of several continuing operating policies of the Federal Open Market Committee in the form in which they were approved at the meeting of the Committee on March 2, 1955:

It is agreed that it is not now the policy of the Committee to support any pattern of prices and yields in the Government securities market, and intervention in the Government securities market is solely to effectuate the objectives of monetary and credit policy (including correction of disorderly markets).

It is agreed that operations for the System account in the open market, other than repurchase agreements, be confined to short-term securities (except in the correction of disorderly markets) and that during a period of Treasury financing there be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange; and that these policies be followed until such time as they may be superseded or modified by further action of the Federal Open Market Committee.

It is agreed that transactions for the System account in the open market shall be entered into solely for the purpose of providing or absorbing reserves (except in the correction of disorderly markets), and shall not include offsetting purchases and sales of securities for the purpose of altering the maturity pattern of the System's portfolio; such policy to be followed until such time as it may be superseded or modified by further action of the Federal Open Market Committee.

Shown below is a proposed revision, as suggested by Mr. Robertson at the meeting of the Committee on March 2, 1955, of the above statements of continuing operating policies. It was understood that Mr. Robertson's suggestion would be considered at the meeting of the full Committee to be held in June.

It is not now the policy of the Committee to support any specific pattern of prices and yields in the Government securities

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market, and transactions in the open market shall be undertaken solely for the purpose of influencing the volume of bank reserves and thereby the costs and availability of credit, in order to promote economic growth and stability (including correction of disorderly markets).

Transactions for the System account in the open market shall be confined (except in correction of disorderly markets) to short-term securities, preferably bills, and shall not include offsetting purchases and sales of securities of different maturities (i.e., "swaps").

During periods of Treasury financing there shall be no purchases of (1) maturing issues for which an exchange is being offered, (2) when-issued securities, or (3) outstanding issues of comparable maturity to those being offered for exchange.

Since the meeting on March 2, Mr. Robertson has suggested, in order to make clear the position of the Committee that repurchase agreements are not affected by the restrictions on operations during a period of Treasury financing, that the last paragraph of his proposed revision be modified by adding words such as: "; but this restriction shall not be applicable to repurchase agreements."

JUN 6 1955

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June 2, 1955.

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To: Federal Open Market Committee Subject: Directive of Open
From: Mr. Vest Market Committee.

At the meeting of the Federal Open Market Committee on May 10, there was a discussion of the desirability of making certain changes in the form of the directive to the Executive Committee and a number of suggestions were made. The Committee decided to change the directive by eliminating the words "encourage recovery and" from clause (b) but made no further change in the directive at the time. It was understood, however, that Counsel would be requested to study the directive and the various suggestions made at the meeting, with a view to submitting for the Committee's consideration any revisions in wording which are felt to be desirable.

This matter, including the various suggestions as to the forms of possible amendments to the directive, has been discussed with various members of the staff of the FOMC.

The pertinent paragraph of the existing directive of the Committee reads as follows:

"The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary, in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds in the market to the needs of commerce and business, (b) to fostering growth and stability in the economy by maintaining conditions in the money market that would avoid the development of unsustainable expansion, (c) to correcting a disorderly situation in the Government securities market, and (d) to the practical administration of the account; provided 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 \$2,000,000,000."

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Need for Change of Form at This Time. - It is the consensus of the staff that it would be preferable not to make a further change in the form of the directive in the immediate future, unless some further change of policy of the Committee should make it necessary. The change which was made on May 10, it is believed, is adequate to state in reasonably satisfactory form the present policy of the Committee and to carry out the Committee's purpose and intent. Changes in the directive of the Committee are customarily published in the policy record submitted to Congress, and the staff questions the desirability of making changes merely for the purpose of amending the form or perfecting the language of the directive, where no change of substance is involved. Of course, if any change of policy is intended, a modification of the directive would be needed.

Possible Changes. - Assuming that the Committee may feel it appropriate, however, either now or later to modify the form of the directive, there are several changes that might well be considered by the Committee.

(1) A number of suggestions were made at the May 10 meeting as to a modification of clause (b) of the existing directive above quoted. Each of the suggestions made, while differing in form, is intended to accomplish essentially the same purpose and it is believed that any one of the following alternatives of clause (b) would appropriately and satisfactorily reflect the existing policy of the Committee:

I. "to fostering orderly and stable growth in the economy by maintaining conditions in the money market that would be consistent with a high level of economic activity and that would avoid the development of unsustainable expansion";

II. "to fostering sustainable growth and maintaining conditions in the money market appropriate to a high level of economic activity";

III. "to fostering orderly growth in the economy by endeavoring to maintain conditions in the money market that will aid in the development of healthy, sustainable expansion."

Each of the above clauses would, it is believed, carry out the purpose and intent of the existing directive and would be consistent and appropriate in the light of the present situation. Each of them includes the idea of open market operations directed toward sustainable expansion, growth on a stable basis, and a high level of economic activity.

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(2) One of the suggestions made at the May 10 meeting was the insertion of the words "or appropriate" after the word "necessary" in the seventh line of the above directive. It is believed that this change would more accurately state the intent of the directive and would be desirable.

(3) It was also suggested that the words "and the general credit situation of the country" be eliminated where they now occur in the eighth and ninth lines of the directive. Since the statute itself uses these words in describing the objectives of open market operation, it would seem desirable, although not essential, that they be continued in the directive, particularly since they have long been a part of the directive and their omission might give rise to question or misunderstanding as to the intention of the Committee. These words cover certain considerations that might at times be important and might not be adequately encompassed in other phrases of the directive.

(4) It was suggested that the words "in the market" in clause (a) of the directive be omitted. The meaning would not be significantly changed by this omission and there would seem to be no objection to the dropping of these three words, although there is some basis for keeping them in order to denote that Federal Reserve policies are designed to operate through market processes.

(5) It was suggested that the words in clause (c) "to correcting a disorderly situation" be changed to read "to correcting disorderly situations". The language has been continued in its present form for more than two years, and it is possible that a change at this time would be misunderstood, thus defeating the purpose of the change. When, however, other changes are being made in the form of the directive, this clause might well be modified. If any change is to be made, however, it is suggested that the clause read "to correcting a disorderly situation, if one should occur * * *".

(6) Another suggestion received is that the words in clause (b) "to fostering growth and stability in the economy" (or "to fostering orderly and stable growth in the economy") are of a continuing nature and might well be transferred to and incorporated in clause (a), with such further minor change in language of clause (b) as might be appropriate on account of such transfer. While this would probably make no important difference in meaning, such a change is perhaps largely a matter of individual preference.

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Suggested Paragraph. - If the views indicated above should be substantially followed, the first paragraph of the existing directive of the Committee would be changed at the appropriate time to read as follows:*

[New matter indicated by capitalized words and old matter by words stricken through.]

The executive committee is directed, until otherwise directed by the Federal Open Market Committee, to arrange for such transactions for the System open market account, either in the open market or directly with the Treasury (including purchases, sales, exchanges, replacement of maturing securities, and letting maturities run off without replacement), as may be necessary OR APPROPRIATE, in the light of current and prospective economic conditions and the general credit situation of the country, with a view (a) to relating the supply of funds ~~in-the-market~~ to the needs of commerce and business, (b) to fostering ~~growth-and stability~~ ORDERLY AND STABLE GROWTH in the economy by maintaining conditions in the money market THAT WOULD BE CONSISTENT WITH A HIGH LEVEL OF ECONOMIC ACTIVITY AND that would avoid the development of unsustainable expansion, (c) to correcting a disorderly situation in the Government securities market IF ONE SHOULD OCCUR, and (d) to the practical administration of the account; provided 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 \$2,000,000,000.

A directive such as that indicated in the above paragraph would, of course, be intended to state the policy of the Committee as it presently exists. If no change were made in the form of the directive until some change of policy was decided upon, it would probably be necessary at that time to make some further modification of the directive to reflect any such further change in policy.

* The suggested paragraph set forth includes alternative I under point (1) above. If alternative II or III under point (1) were used, the language of the paragraph would, of course, be changed accordingly.