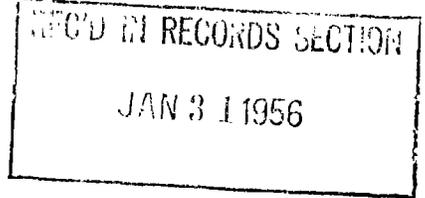


September 29, 1955.

MEMORANDUM TO: Federal Open Market Committee

FROM: Governor Robertson



In order to facilitate consideration by the Open Market Committee, I submit for comments and suggestions the following outline of the Committee's defense planning problem, as viewed in the light of the experience of the last Alert, together with tentative suggestions for revision of the program.

DEFENSE PLANNING
FEDERAL OPEN MARKET COMMITTEE

Problem

To provide ways and means whereby essential open market operations can be carried out in time of emergency, upon the assumption that the Federal Reserve Bank of New York and other (but not all) Reserve Banks are out of commission.

The situation would require:

1. Arrangements for lines of succession in the Open Market Committee and delegation of authority.
2. Personnel familiar with Open Market operations and able to carry out transactions.
3. Accessibility to, or communication with:
 - a. The Open Market Committee,
 - b. The Treasury,
 - c. The market, i.e., dealers and institutional investors.
4. Appropriate records.

Present Arrangements

The Federal Reserve Bank of New York has arranged with the Federal Reserve Bank of Chicago to act as alternate in case of emergency and that Bank maintains duplicate records on the basis of daily mail advice received from the Federal Reserve Bank of New York. Vice President Dawes

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of the Chicago Bank would act as Manager of the Account. During the first half of 1955 the time of 2,77 clerks of that Bank was spent in maintaining duplicate records.

On the whole, it would seem that the Federal Reserve Bank of Chicago is prepared to carry on adequately, provided it too would not be out of commission.

Duplicates of the records sent to the Federal Reserve Bank of Chicago are also sent to the New York Bank's record center at Ossining. Accounts are not maintained currently at the record center, but they could be reconstructed if necessary from the data on hand.

The Federal Reserve Bank of New York has arranged with the Federal Reserve Bank of St. Louis to act as second alternate in case of emergency. That Bank, however, does not have personnel experienced in the field and does not receive duplicate records.

The Chairman of the Federal Open Market Committee has been authorized to designate a Federal Reserve Bank to operate the System Open Market Account in an emergency.

Letters have been executed which would deliver all Open Market Account securities into the joint custody of the Bank designated by the Chairman of the Federal Open Market Committee under the above authorization and the Agent of that Bank. All Reserve Banks and Agents have been advised that such arrangements have been approved by all Banks and Agents and that the plan will become effective during any period in which an appointed Bank operates the Open Market Account.

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At the July 12, 1955 meeting of the Federal Open Market Committee Chairman Martin was authorized to appoint a subcommittee to reappraise Open Market operations in the event of emergency and to suggest any revisions that should be made in the present plan for emergency operations. Such a committee has not yet been appointed. At the meeting of September 14, however, Vice Chairman Sproul suggested that Governor Robertson undertake to do some advance thinking on the subject with the view to expediting consideration of the program by the committee.

Questions

1. Is it safe to count on any particular Federal Reserve Bank as being available to carry on Open Market operations in the event of emergency?
2. Is not the need primarily for the development and maintenance of a group of men, widely dispersed, familiar with Open Market operations and who could carry on in the event of emergency?
3. a. Is the maintenance of duplicate records necessary or particularly helpful? Is it worth the effort?
 - b. Could the situation as to records be adequately met by having the Federal Reserve Bank of New York send copies of the Open Market accounts and entries to all other Federal Reserve Banks and its own relocation center, copies of accounts weekly and copies of entries daily? The accounts could thus be reconstructed at any time with a maximum of five days' entries to be posted.

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Suggestions

1. That a definite program be undertaken to train and to maintain a group of men, as widely dispersed as possible, familiar with Open Market operations and who could carry on in the case of emergency. This might start with the selection of a small group within the System who could prepare themselves, so far as possible, by study and who would be given training at the Federal Reserve Bank of New York, say in groups of three. (The number to be given the benefit of training at New York and the length of the training period would depend largely upon the suggestions of the New York Bank.)
2. That no specific Federal Reserve Bank or Banks be designated in advance as alternate Agent Bank for the Committee.
3. a. That maintenance of duplicate records at another location be discontinued.
b. That copies of the accounts be sent weekly to each Federal Reserve Bank and to New York's relocation center, and that copies of entries in the Account be forwarded daily.
4. That authorization of the Chairman of the Committee to designate a Federal Reserve Bank to operate the System Open Market Account in an emergency be reaffirmed as part of the revised emergency program.
5. That organizational plans be formalized to assure continuation of operation of the Committee in the event that, because of an emergency, less than 7 of the designated members or alternates are available. Such a program might involve:

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A. Arrangements for an interim committee of 7 members, which would become effective upon certification by the Secretary or Assistant Secretary of the Committee, or the Secretary or Acting Secretary of the Board of Governors, that as a result of the emergency a quorum of 7 of the regular Committee is not available.

B. In such event an interim committee could be composed and organized as shown below.

Composition

- (1) The remaining available members or alternates of the Committee.
- (2) An additional number necessary to make 7 in the following order of priority:
 - (a) The Presidents not at the time regular members or alternates of the Committee, in order of the numbers of the Federal Reserve Districts.
 - (b) The First Vice Presidents in the same order of priority, with the provision that a President and a First Vice President of the same Bank would not serve at the same time as members of the Committee.

Organization

- (3) A quorum of the interim committee would not be necessary for action, any one or more members who were present would act as the Committee.

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(4) In the absence of both the regularly elected Chairman and Vice Chairman the regular Committee or the interim committee would elect its own Chairman and Vice Chairman.

(5) In the absence of the Secretary or Assistant Secretary of the Committee, the Committee would appoint its own Secretary and Assistant Secretary.

6. That at appropriate time discussions be had by representatives of the Federal Reserve Bank of New York with principal Government securities dealers and institutional investors, with a view to developing plans that would meet essential needs in event of emergency.