



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

REC'D IN RECORDS SECTION  
MAY - 3 1962

OFFICE OF THE CHAIRMAN

May 3, 1962.

CONFIDENTIAL (FR)

To: Members of the Federal Open Market Committee  
and Presidents not currently serving on the  
Committee.

From: Chairman Martin

At the meeting of the Federal Open Market Committee on April 17, 1962, reference was made to the understanding during the executive session of the meeting on January 23 of this year that Messrs. Hayes, Balderston, and I would hold informal exploratory discussions looking toward the selection of a successor to Mr. Rouse as Manager of the System Open Market Account, and it was agreed that this informal group would submit a report to the Committee for consideration at a later meeting.

The enclosed report is submitted for your personal and confidential use prior to consideration of the subject in executive session at the meeting to be held on May 8, 1962.

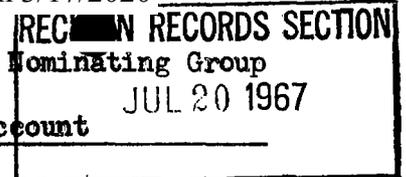
MS:me

No copies sent to St. Louis.  
Sent to Messrs. Ellis, Hayes, Treiber,  
Bopp, Fulton, Wayne, Bryan, Scanlon,  
Deming, Clay, Irons, & Swan  
Chairman Martin, Govs. Balderston,  
Mills, Robertson, Shepardson, King,  
& Mitchell. Messrs. Young, Sherman,  
& Kenyon. One copy of report to files in  
**Enclosure** sealed envelope

A handwritten signature in cursive script, reading "Wm. McC. Martin, Jr.".

Wm. McC. Martin, Jr.

Report to Federal Open Market Committee by Informal Nominating Group  
on  
Proposed Manager of System Open Market Account



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Background

At the Federal Open Market Committee meeting of January 23, 1962, Chairman Martin informed the meeting in Executive Session that the question of the selection of a successor to Mr. Rouse as Manager of the System Open Market Account was now under active consideration. He suggested that, in lieu of the appointment of any formal nominating committee, he, Governor Balderston and Mr. Hayes would hold informal exploratory discussions looking toward the selection of an individual to succeed Mr. Rouse who would be agreeable to both the Federal Open Market Committee and to the Federal Reserve Bank of New York. Mr. Martin added that suggestions of suitable names for consideration would be welcomed from members of the Committee or from the Presidents not currently serving on the Committee.

Subsequently this informal nominating group met for a rather full discussion of the problems involved and to review various names which the members of the group had in mind. During the ensuing weeks there were a number of additional conversations among the three members of the group, leading to the recommendation which Chairman Martin presented to the Federal Open Market Committee meeting in Executive Session on April 17, 1962. In the light of the ensuing discussion, it was deemed desirable by the Committee to defer action on the proposed appointment and, in the meantime, to have a memorandum prepared for the benefit of the Committee that would set forth the reasons for the conclusion reached by the informal group. This memorandum is provided in order to meet the Committee's wishes.

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Recommendation

The informal nominating group recommends for the post of Manager, to succeed Mr. Rouse, Mr. Robert W. Stone, now an Assistant Vice President of the Federal Reserve Bank of New York assigned to the Securities Function. It is suggested that the appointment be made effective in the near future, at a date to be agreed upon by the Committee and the New York Bank, perhaps May 15.

Mr. Stone, age 39, was graduated from the University of Connecticut in 1949 with a B.A. degree, and was awarded an M.A. degree in economics in 1951. He received his Ph.D. in economics from the University of Virginia in 1955. Mr. Stone was employed by the Bank in May 1953 as an Economist C. In April 1955 he was assigned to the Personnel Department where he served as Supervisor, Assistant Chief and Chief of the Salary Research Division. In 1958 he became an officer of the Bank with the title of Manager and was assigned to the Securities Department where he had primary responsibility for Trading and Reports. He held this position until his appointment as Assistant Vice President in the Securities Department in January 1962; in addition, from January 1960 to October 1960 he was Assistant Secretary of the Bank. During the spring of 1961 he spent five weeks on a special assignment with the Board of Governors in Washington.

In the judgment of the nominating group, Mr. Stone has demonstrated a variety of fine characteristics, including intellectual capacity, imagination, balanced judgment, understanding of economic theory and the role of monetary policy, the ability to express himself well both orally and in writing, adequate but not excessive self-confidence, a pleasing

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personality and an ability to get along with others. Although he has not had as much experience in the financial markets as might be considered ideal, he has a good general understanding of the Government securities market, has been broadening his contacts with leading participants in the market, and has been characterized by one of those leading participants as having "good market sense."

The informal nominating group has given very careful consideration to Mr. Stone's qualifications and feels that, in spite of his relative youth, he now possesses the qualities needed to perform satisfactorily the heavy duties of Manager, and in addition he gives promise of further development in this position over the years.

#### Discussion

The group's recommendation has been made only after a careful review of the requirements for the post of Manager and of the qualifications, not only of Mr. Stone, but of a considerable number of alternative candidates whose names had been suggested either by members of the group or by others. The following is a list of names that were considered:

Robert Bethke, Vice President, Discount Corporation

Robert H. Craft, President, Paribas Corporation

J. Dewey Daane, Deputy Under Secretary of the Treasury  
for Monetary Affairs

Charles J. Gable, Jr., Senior Vice President, The First  
Pennsylvania Banking and Trust Company,  
Philadelphia

Robert C. Holland, Adviser, Board of Governors

Alan R. Holmes, Assistant Vice President, Federal Reserve Bank  
of New York

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John J. Larkin, Vice President, First National City Bank

Ralph F. Leach, Vice President and Treasurer, Morgan Guaranty

Spencer S. Marsh, Jr., Assistant Vice President, Federal Reserve Bank of New York

Donald C. Miller, Vice President, Continental Illinois National Bank and Trust Company, Chicago

John Perkins, Vice President, Continental Illinois National Bank and Trust Company, Chicago

Herbert Repp, President, Discount Corporation

Paul I. Wren, Senior Vice President, The Old Colony Trust Company, Boston

C. Richard Youngdahl, Executive Vice President and Director, Aubrey G. Lanston & Co., Inc.

At the outset it was recognized that the Manager must have both a knowledge of money and security markets, particularly the market for U.S. Government securities, and an understanding of the role of central banking and monetary policy, and especially the role of open market operations. It was also agreed that the group should feel quite free to look outside the System, as well as inside the System, for suitable candidates. We were aware that good arguments could be made for both of these alternatives. We would be more likely to find a thorough knowledge of security markets among senior professionals in those markets. An appointment of someone outside the System who enjoyed a very high reputation in the financial world might be expected to lend prestige to the post of Manager, and there may always be some advantages in injecting "new blood" into any System activity. On the other hand, the group felt that it would be hard to find someone available from an outside organization who had a close understanding of monetary policy--and that conceivably it might be easier

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for someone in the System, thoroughly familiar with monetary policy, to expand his knowledge and understanding of the details of the operations of the securities markets than to inculcate a good understanding of central banking in a professional securities expert. The group was mindful of the difficulties imposed by limitations on the salary that could be paid for the job of Manager as compared with the salary (together with a variety of fringe benefits not available in the System) enjoyed by many of those candidates now working in private organizations. We had in mind also the fact that, other things being equal, there are advantages to promotion from within an organization from the standpoint of preserving or enhancing the morale of the organization's staff. Finally we recognized that all of us have had a better opportunity to appraise the candidates from within the System, whereas, in the case of at least some of the "outsiders", there would necessarily be somewhat more of a "gamble."

At our first meeting, we concluded that Mr. Repp would be an outstandingly attractive candidate, among all those considered from outside the System, in view of his unusually high reputation for ability, integrity, and statesmanship. We thought it worthwhile, therefore, to explore his availability, even though we did not foresee much likelihood of success in this regard. We also felt that Mr. Bethke, of the same organization, was one of the most promising of the "younger outside" candidates, and it was therefore decided to explore informally his availability in case Mr. Repp should not be interested. It should be emphasized that we were talking solely of determining availability of these individuals and not in terms of making any immediate offer to them.

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As instructed by the nominating group, Mr. Hayes had a lengthy conversation on February 5 with Mr. Repp, outlining the problem created by Mr. Rouse's impending retirement and expressing the hope that Mr. Repp might wish to have his name considered as a possible successor. After listening carefully to this proposal, Mr. Repp said that, while he felt very much flattered and while he was very much interested in central banking, he would not like to have his name considered, primarily because he felt that it would be a breach of faith with the new stockholders of Discount Corporation, who had been assured that no significant changes would be made in the company's management. He also spoke of the financial sacrifice he would be called upon to make. It would be very considerable; his present aggregate salary and bonus are several times as large as the top of the salary range applicable to the Manager. Furthermore, Mr. Repp is 60 years old, and a change at this time would have a very considerable effect on his retirement pay. Beyond this, it was clear that he takes considerable pride in being the "boss of his own show" and would be reluctant to move from this to a role in which he would necessarily be subject to the instructions of a relatively large organization.

After expressing regret over this conclusion, Mr. Hayes then asked whether, in Mr. Repp's judgment, Mr. Bethke would be likely to be interested in having his name considered. Mr. Repp characterized Mr. Bethke as "very bright, hard working, energetic, full of drive and imagination and a very agreeable personality." On the other hand, he was not sure that he possessed quite as much "toughness" in dealing with the "hard-boiled" participants in the securities market as the Committee had a right to look for in the Manager. Nevertheless, as instructed by the nominating group,

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Mr. Hayes asked him to make some discreet and highly confidential soundings to ascertain whether we should look upon him as an available candidate. Mr. Repp undertook to do so, on an "objective" basis, although he did not conceal his hope that Mr. Bethke would wish to remain with Discount Corporation. A day or two later Mr. Repp reported that he had discussed this question with Mr. Bethke; that Mr. Bethke was quite flattered to be considered as even a possibility; that he had thought over the matter carefully and objectively, and had come to the conclusion that his name should not be considered. While he had recognized the strong appeal of the job's public service aspects and its intellectual stimulation, nevertheless he enjoyed his association with the Discount Corporation and particularly the competitive aspects of the work, as well as the opportunities for substantial financial remuneration. (Mr. Repp had already indicated that Mr. Bethke would very soon be obtaining a combined salary and bonus very substantially in excess of the top salary range for the Manager.)

The experience of the nominating group with these informal soundings convinces them of the serious difficulties that would be likely to be met in any attempt to attract to the post of Manager any individual occupying a post of senior responsibility with one of the leading banks or financial houses. The Committee felt that there were appreciable risks in proceeding too extensively with exploratory conversations of the kind outlined above, since it might be difficult to prevent spreading of rumors that the position of Manager was being "shopped around." The group therefore decided to proceed with further deliberations among the members of the group but without additional exploratory conversations on availability.

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One name that was given serious consideration was that of Mr. Gable, who had served as Special Assistant to the Secretary of the Treasury during the previous Administration and who is well known to many in the System and in financial circles generally.

After weighing carefully the merits and drawbacks of all of the candidates listed above, the informal nominating group concluded that, among those who would be likely to be obtainable, Mr. Stone appeared to possess a better combination of the qualities that the Committee is seeking than any of the others.

Wm. McC. Martin, Jr.

C. Canby Balderston

Alfred Hayes

May 1, 1962.