

reasonably close relation to GNP. I think you probably intended the reverse relationship. It is the money supply that should adjust itself to the GNP. I think that is a long-run relationship and from one year to another you can get very wide variations in it, depending upon how actively the money supply is being used.

I also think it was clear in the war we expanded the money supply to an inordinate level in relation to the then GNP and it took us a good many years to get back to a more normal relationship.

Senator PELL. Thank you very much, sir.

Chairman PATMAN. Mr. Hayes, vault cash was made available to the member banks as reserves in five different steps, some prior to December 1959, some in December 1959, and some in August 1960, September 1960, and finally November 1960. Prior to the time that some of these last steps were taken, was there any discussion in the Open Market Committee which recognized that making vault cash available as reserves was putting a disproportionately large amount of reserves into the country banks?

Mr. HAYES. Mr. Patman, I remember at the time of these actions, which incidentally were taken not by the Open Market Committee but by the Board of Governors, although we discussed it from time to time on an advisory basis, there was consideration given to the way in which these moves would affect the various classes of banks.

My recollection is a little hazy. My recollection is that there were some offsetting changes in reserve requirements in connection with the final release of this vault cash to tend to equalize the effect you mentioned.

Chairman PATMAN. Was there any discussion in the Open Market Committee to the effect that substantial parts of the new reserves made available to the country banks were not finding their way into the money market and that a given amount of net free reserves was not having the effect on credit availability, and on interest rates, that such an amount of net free reserves previously had?

Mr. HAYES. Yes, there was discussion of this. I think there was recognition of the fact that it would take bankers a little while to get used to the new idea and regulations. I think that for a temporary period of transition, as a result, there may have been a time when a given level of free reserves was perhaps not quite as significant as it had been before.

I think that was a purely temporary phenomenon. I think the banks are used to the new rule.

Chairman PATMAN. Has there been any dissatisfaction within the Fed's Open Market Committee itself as to the vagueness of the so-called directive given to the manager of the account or to the lack of quantitative standards in use for reaching policy decisions?

Mr. HAYES. This is a subject, I guess, we have been talking about for the last 10 years and we will always be trying to improve our procedures. I think we have gone into this in previous meetings, Mr. Patman.

Chairman PATMAN. Yes, sir, we have.

Mr. HAYES. On the whole, we feel that the manager does get the kind of clear instructions that he needs to proceed. But we are always willing to try to improve our techniques and from time to time we have made certain changes in that direction.