

domestic economy and in the United States balance of payments with other countries, the Open Market Committee authorized transactions in longer term securities" (1961, p. 35). Perhaps of more significance than these insertions, however, is the deletion in the second printing of one of the key paragraphs justifying the "bills only" policy, a paragraph that had just appeared for the first time in the first printing of that edition.¹⁰ Nevertheless, the greater part of the argument for "bills only" and the doctrine of minimum intervention has been left unchanged in the second printing, including the above-quoted statement to the effect that the structure and level of interest rates should be left as far as possible to the determination of private market forces.

Changes in reserve requirements.—The treatment of reserve requirements is very similar through all four editions. About the only new material appears in the 1961 edition where, for the first time, the subject of equity is raised in connection with reserve requirements. In discussing the feasibility of frequent changes in reserve requirements, the Board notes that

¹⁰ The deleted paragraph is the following: "If Federal Reserve operations were regularly conducted in all maturity sectors of the Government securities market, the portfolio managers of financial institutions, other investors, and professional traders might well become unduly sensitized to possible changes in monetary policy. A particular hazard, for instance, would be that the trading in the longer term area of the market, which normally experiences the widest price swings, might become overly influenced by guesses about the maturities that might be involved in System operations. In these circumstances, discontinuities in market performance and unsettled market tendencies might occur with increased frequency. Also, market prices and yields would not adequately reflect the interplay of primary supply and demand forces stemming from current economic tendencies. This would handicap market observers, including reserve banking officials in their efforts to follow and interpret current economic developments" (pp. 40-41, first printing, fourth edition).

even small changes in required would have a relatively large impact on member-bank reserve positions: "If, to avoid a large reserve effect, a change is limited to a particular class of bank, a perplexing problem of equity as between classes of banks is presented" (1961, p. 54). It is also noted that the contraction decreases in member-bank reserve requirements during the 1950's, which were not reversed in subsequent booms, "were facilitated by the fact that existing levels of reserve requirements were high in relation to past periods and also in relation to the standards for non-member banks adhered to by many States" (1961, p. 55). No similar equity considerations are mentioned with respect to reserve requirements on commercial banks vis-à-vis non-bank financial institutions.

Selective credit controls.—The topic of selective credit controls has had a rags-to-riches-and-back-to-rags odyssey through the four editions of *Purposes and Functions*. In 1939, of course, only margin requirements were mentioned. The point was made that the excessive use of stock market credit might have wide ramifications and that via margin requirements the System "is able to impose restrictions on the use of bank funds for stock market speculation without restricting the volume of credit available for commercial and industrial needs or raising its cost" (1939, p. 112).

More than three times as much space was devoted to selective credit controls in 1947, with a discussion of consumer credit controls added to the section on margin requirements. Again: "These methods are supplementary to methods of general regulation, and *their merit* is that they make it possible to restrain the flow of money into certain fields at times when conditions in the economy as a