FEDERAL RESERVE BANK

OF NEW YORK

CONFIDENTIAL

November 4, 1935.

Dear Governor Eccles:

I have taken a whack at a possible statement to be issued by the Board of Governors in the event that it should be decided to increase reserve requirements. It has been put down on paper rather hastily since, in our conversation this afternoon, you indicated you would like to have a draft tomorrow morning. I have tried to make it as short and as non-technical as possible, having in mind the advisability of avoiding unnecessary controversy as to details.

I shall take a copy home with me tonight and if I have any second thoughts concerning this draft I shall get in touch with you sometime late tomorrow or early Wednesday morning. It's not as easy as I thought it would be!

Faithfully yours,

George L. Harrison,
Governor.

Hon. Marriner S. Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D.C.

Enc.

November 4, 1935.

The Banking Act of 1935 authorizes the Board of Governors of the Federal Reserve System to increase reserves required to be maintained by member banks against demand or time deposits, in order to prevent injurious credit expansion.

In the opinion of the Board there is now no evidence, either in the figures of bank credit or of business activity, that injurious credit expansion is taking place, nor is there any occasion to reverse the present credit policy of the Federal Reserve System which is designed to facilitate an increased use of credit and an increase in production and employment.

The present reserve position of the member banks, which is chiefly the result of an unprecedented inflow of gold to this country from abroad, does, however, make possible an injurious expansion of credit in the future. The amount of reserve funds now held by the member banks totaling $ is more than double the amount of the reserve which such member banks are required to maintain. There are, therefore, excess reserves totaling $ which could support an expansion of bank credit far greater than can be usefully and soundly employed with a full business recovery. Such a surplus of reserve funds lying idle constitutes a danger to the country's economy and it is prudent, therefore, that action be taken now not to restrain present credit expansion, but with a view toward preventing injurious expansion in the future. For this reason the Board of Governors of the Federal Reserve System will raise the reserves required to be maintained by member banks by amount *on*

The change which is ordered will have the effect of immobilizing a part of the present excess reserves. It will leave with the banks as free reserves a sufficient amount to support a much further expansion of bank credit. This action should not, therefore, act as a restraint upon the lending policies of banks generally, but on the contrary, should give confidence to the banks and to the public by making more certain *the* proper control of credit in the future.