Taken to President by Mr. Eccles

on July 9, 1936

7/9/36

MEMBER BANKS

June 30, 1933 - March 4, 1936
(In billions)

Increase in demand deposits	$6,890
Increase in time deposits	1,401
Total	8,291

This increase was attributable to an increase in the holdings of Government and Government-guaranteed securities of	5,557
Increase in other securities of	704
An inflow of gold and silver of	3,400
	9,661
Less Decline in banks' other loans	486
Other factors	884
Required reserves held by member banks on June 1933	874
Required reserves held by member banks on June 30, 1933	1,790
Excess held by member banks on June 30, 1933	445
Required reserves held by member banks on March 4, 1936	2,780
Excess held by member banks on March 4, 1936	3,004

The growth of deposits increased requirements by nearly $1 billion, yet *excess* reserves increased over $2½ billion in the same period. This was due to the inflow of gold and silver of approximately $3.4 billion.

Total supply of deposit currency plus cash outside banks:

June 30, 1929	26.4
June 30, 1933	19.9
June 30, 1936	30.0 (approx)

7/8/36

Memorandum for the Chairman

Arguments for increasing reserve requirements:

1. Excess reserves are beyond all present and prospective needs of business.

2. The excess has been created by gold imports and not by System policies which created easy money prior to the inflow of gold.

3. It would remove the danger of inflation from this quarter and show that the Board appointed by the President is on guard to prevent inflation.

4. The very existence of this surplusage of reserves is disquieting; removal of the surplusage should be reassuring and tend to encourage investment in the long term market.

5. A more than adequate base for legitimate credit expansion would still remain.

6. Action would vindicate the Banking Act of 1935 which contemplated the exercise of just such control of credit by a public body.

7. The action would in fact place the reserves under the control of the Open Market Committee; this is a flexible instrument whereas reserve requirements are not.

8. The longer action is delayed the more difficult it will be to act because banks will get in deeper, use up their excess reserves and action then would require liquidation with consequent deflationary effect. At present practically all banks have excess reserves.

9. Deposits are now back to 1929 levels so that no such leeway as is represented by the abnormal excess of reserves is needed to replenish deposits.

10. The reserves have recently dropped by a billion dollars without causing a ripple.

11. The time is opportune to act as Congress is out of session, Treasury financing is out of the way and the stock market is quiet, so that action would not be misconstrued as aimed in that direction.

Arguments against action:

1. It is still uncertain how much more gold may come in or how much may leave the country.

2. The continued existence of the vast excess of reserves has done no harm.

3. Action may be misinterpreted as putting the brakes on recovery just as the capital market is reviving for new investment and construction is getting well under way.

4. Banking opinion is mixed with an apparent preponderance now opposed to action; those who have been most sympathetic toward Administration policy, including the Morgan partners, have been against action — so is David Stern.

5. The Lemke-Coughlin group might be expected to attack the action as restrictive, deflationary and typical of the "money changers"!

6. The action contemplated will not satisfy those groups which have been clamoring for action in the hope that it would stiffen interest rates. If there were any serious danger of such a result, I should oppose action.

I would not favor action under any circumstances unless assured of authority through the Open Market Executive Committee to counteract any recession of a point or more in the price of governments.