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REASONS AGAINST RAISING RESERVE REQUIREMENTS AT THIS TIME

1. There is at this time no indication of an expansion of credit and, therefore, no real occasion for taking any action of a restraining character.

2. Federal Reserve policy should depend in part on its psychological effect. For that reason it ought to be extremely simple. The public should know that when the Federal Reserve System does anything in the direction of restraint that this constitutes a policy of restraint. A simple understanding of red and green signals of credit policy is an advantage which may be lost or impaired by actions that require more or less subtle explanation.

3. The System's powers for counteracting the enormous volume of excess reserves now in existence and in prospect are limited. The open-market portfolio is \$2,400,000,000 and the maximum by which reserve requirements may be raised amounts to a similar figure. Excess reserves might become larger than could be counteracted by both of these instruments. Their full utilization, furthermore, particularly the sale of Government securities in large volume, may be a difficult matter. For this reason, it might be better policy to husband the System's resources in order to be in a position to utilize them to the maximum effect when the need comes.

4. Action at the present time might, even though it should not, result in a more hesitant attitude on the part of banks and might, therefore, retard recovery.