

Mr. Ecker

COPY

August 4, 1948

To: Board of Governors

Subject: Bank Reserves Bill

From: Mr. Vest

There is attached a copy of the bank reserves bill (applicable to member and nonmember banks) which has been revised in accordance with the discussion at Board meeting on Wednesday morning. I gave a copy to Mr. McKenna, of the staff of the Senate Banking and Currency Committee. Subsequently I received a call from Mr. Hallahan, Clerk of the House Banking and Currency Committee, indicating that he was under the impression that we were to furnish a bill of this kind to him. Accordingly, after consulting with the Chairman, I sent a copy of the bill also to Mr. Hallahan.

G.B.V.

Attachment

Mr. Eccles

August 4, 1948.

A B I L L

To prevent undue credit expansion, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Reserve Act is hereby amended by inserting therein immediately following section 19 thereof a new section reading as follows:

"Sec. 19A. (a) Time Limit. - This section shall expire on June 30, 1950.

"(b) Purposes. - As a result of necessary war financing, there are now outstanding large amounts of Government securities, and in present circumstances such securities can be converted into bank reserves with resulting multiple increases in bank credit and in deposits that serve as money. Gold flowing to the United States also provides additional bank reserves which can add to such monetary and credit expansion. Such expansion, at a time when total effective demand for goods and services is in excess of the supply which can be produced by the nation's productive capacity and labor force, can further aggravate inflationary pressures on prices and thus produce burdens upon and dislocations in interstate and foreign commerce and the nation's monetary, banking and credit structure.

"The purposes of this section, in the light of which its provisions shall be construed and applied, are to require banks, whether

or not members of the Federal Reserve System, to hold additional bank reserves against deposits in such amounts as may be necessary to aid in protecting interstate and foreign commerce and the nation's monetary, banking and credit structure from the above-mentioned burdens and dislocations.

"(c) Holding of Reserves. - (1) Every bank shall keep on deposit with the Federal Reserve Bank of its district a deposit balance (and Reserve Banks are authorized to receive such deposits from any bank) equal to the sum of such percentage of its demand deposits and such percentage of its time deposits as the Board of Governors of the Federal Reserve System may by regulation prescribe from time to time to accomplish the purposes of this section, but in no event shall the percentage so prescribed with respect to demand deposits exceed 10 per centum or the percentage so prescribed with respect to time deposits exceed 4 per centum. Within these limitations, different percentages as to demand deposits or time deposits, or both, may be prescribed by the Board with respect to (1) banks located in central reserve cities, or (2) banks located in reserve cities, or (3) banks located elsewhere. Any percentage shall be uniform for all banks in central reserve cities, uniform for all banks in reserve cities, and uniform for all banks located elsewhere, except as provided in paragraph (2) below.

"(2) When a bank is located in the outlying districts of a central reserve city or reserve city or in territory added to such a city by extension of its corporate charter, it may, upon obtaining

permission from the Board to do so, comply, when it so desires, with the requirements of this section applicable to banks in reserve cities or to banks not in central reserve cities or reserve cities, instead of with the requirements of this section which would be otherwise applicable to it. Banks which have permission to carry reduced reserves in accordance with paragraphs (b) or (c) of section 19 of this Act shall be deemed to have like permission for the purposes of this paragraph.

"(3) No initial percentage or subsequent increase thereof shall become effective until the expiration of a period of at least thirty days after notice thereof shall have been published in the Federal Register; but no other notice or procedure shall be required in connection with the prescribing of any percentage under this subsection notwithstanding any other provision of law. [The last clause of this sentence can and should be omitted if there is exclusion from the Administrative Procedure Act provided elsewhere in the bill.]

"(4) The requirements applicable to any bank under this section shall be in addition to all other requirements which may be applicable to such bank under State or Federal law, and any deposit balance which a bank maintains in satisfaction of the requirements of any such other law shall not be used to meet the requirements of this section.

"(5) In prescribing any percentages under this subsection, the Board shall consider among other factors (A) the volume and distribution of bank reserves and of assets readily convertible into such reserves,

(B) gold movements, currency fluctuations, and other factors affecting the available supply of bank reserves, and (C) the general credit situation of the country.

"(d) Computations. - The amounts and percentages specified in subsection (c) of this section shall be computed on the basis of such computation periods as the Board may prescribe, which may be different for different classes of banks according to size or location. The amount by which the average balance maintained by a bank at the Federal Reserve Bank pursuant to this section in any computation period falls below the amount required by this section or regulations pursuant thereto shall be considered a 'deficiency' for such computation period.

"(e) Penalty for Deficiencies. - Any bank having in any computation period a deficiency as defined in subsection (d) of this section shall pay to the Federal Reserve Bank of its district for remission to the United States a penalty at a rate to be prescribed by the Board upon the amount of such deficiency for such period. Such penalty rate shall be the same for all banks. If such penalty is not paid as above provided by the end of the calendar month succeeding that in which such computation period ended, such penalty, together with interest thereon at the rate of six per centum per annum from the end of such succeeding month until paid, may be sued for and recovered by the United States in a suit to be brought by the United States District Attorney in the District Court of the United States of the judicial

district in which the principal place of business of such bank in the United States is located, and the District Courts of the United States shall have jurisdiction of such suits. If and when the Board shall so request, it shall be the duty of the several District Attorneys in their respective districts, under the supervision of the Attorney General, to institute proceedings to collect such penalties including interest. When a bank has a deficiency which results from excusable error made in good faith or from extraordinary circumstances beyond the control of the bank, or a deficiency which is deemed to be inconsequential in amount, such bank may in the discretion of the Board or under regulations prescribed by it be excused from payment of a penalty on account of such deficiency.

"(f) Reports. - Except as otherwise provided in subsection (h) hereof with respect to nonmember banks, the Board may require any bank to furnish from time to time such reports and other information as it may prescribe, but no such reports or information shall be required under this section except such as the Board may find to be necessary to obtain information as to compliance with this section or otherwise to enable it to carry out its functions under this section. Any person who shall knowingly make any false statement or report or give any false information or wilfully fail to furnish any report or information required under this subsection shall be guilty of a misdemeanor, and upon conviction shall be fined not more than \$5,000 or imprisoned not more than one year or both.

"(g) Regulations and Administration. - The Board may from time to time prescribe, amend or revoke regulations to effectuate the

provisions of this section or to prevent evasion or circumvention of its purposes; and such regulations may, among other things, include definitions of the terms used in this section not inconsistent with the definitions contained herein or with the purposes of this section. Any function of the Board under this section other than the prescribing of regulations and the determination of matters of general policy may be performed by such member, officer, or representative of the Board as it may designate for the purpose; and in the administration of this section, the Board may utilize the services of the Federal Reserve Banks and any other agencies, Federal or State, which are available and appropriate.

"(h) Policy of Enforcement as to Nonmember Banks. - (1) In so far as nonmember banks (i.e., banks not members of the Federal Reserve System) are concerned, it is the policy of the Congress that the functions of ascertaining compliance with this section shall be exercised by the State authority in each State having supervision over such banks to the full extent that such method is practicable and is acceptable to such State authorities. For that purpose, each such State authority which has advised the Board of its willingness to do so may make certifications from time to time, in such manner and form and within such reasonable time limits as the Board may specify, as to compliance or noncompliance with the requirements of this section by any nonmember bank subject to the supervision of such State authority. Such certification shall state either (1) that, on the basis

of reports obtained by it, such State authority is satisfied that such bank has complied with the requirements of this section for a specified period or has paid the specified penalty for any deficiency for such period, or (2) that, on the basis of such reports, such State authority is satisfied that such bank has failed to comply with the requirements of this section for such specified period, including in such certification the amount of the deficiency and the uncollected penalty therefor.

(2) The Board shall accept any such certification as evidence of compliance with this section by the bank designated in the certification for the period specified therein or as evidence of noncompliance for such period and of the amount of the deficiency and uncollected penalty, and the Board shall not be authorized to require such bank to furnish any reports or other information for the purpose of determining compliance for such period. If there is a certification of failure to comply, the penalty for the deficiency may be collected as provided in this section in the case of other banks. If there is neither an adequate certification of compliance nor an adequate certification of failure to comply as provided above for a nonmember bank for a specified period, the other provisions of this section shall apply in the same manner as in the case of other banks.

"(i) Definitions. - When used in this section, unless otherwise required by the context --

"(1) 'Person' means any individual, partnership, corporation, business trust, association, or other similar organization.

"(2) 'Bank' means any person having a place of business in any State or in the District of Columbia which is (A) a national bank, or (B) a person engaged in the business of receiving demand deposits and subject to supervision or examination by the authority in the State or the District of Columbia having supervision over banks; but the Board may by regulation exclude from such term persons which it deems not to be substantially engaged in the performance of functions customarily performed by banking institutions receiving demand deposits and also not to be within the scope of the purposes of this section.

"(3) The term 'demand deposits' means gross demand deposits and includes all deposits of a bank, except time deposits. The term 'time deposits' has the meaning given such term by regulations prescribed from time to time by the Board of Governors of the Federal Reserve System pursuant to section 19 of this Act, except that such regulations may prescribe a different meaning for such term with respect to nonmember banks which are subject to different laws or regulations on the subject."