

F.R.B. CHAIRMEN'S CONFERENCE

Washington, D.C.  
December 10, 1948

(K.R.B.'s notes)

INTRODUCTION

- A. A great pleasure to be here
1. My first assignment in the F.R.S. came from the Chairmen
  2. That assignment led me into the System
  3. To renew acquaintance with Chairmen then  
George Brainard - Frank Neely - Bob Caldwell -  
and Russell Dearmont of my old 8th District
  4. To meet men who have become Chairmen in past decade
- B. Attraction of F.R.S. is support of strong board of directors;  
if my work is any good, it is because of the environment  
at the Philadelphia Bank  
Feel part of important national public service institution
- C. Illustrated last night  
Diversity of amateur voices  
Yet the same tune  
Over-all harmony  
Impact of the System

I. Principles of commercial bank reserve requirements

A. Why require banks to hold reserves at all?

1. Analogy with alloy steel

(a) Can control output of alloy steel  
only if you control both -

- (1) Total amount of alloy available to producers
- (2) Percentage of alloy in finished steel

(b) Limitations of the analogy

- (1) Do not want centralized control of steel  
output, but do want control over supply  
of money

2. Summary

"Unless commercial banks are required to maintain at least minimum reserves against deposits, the country would be without a mechanism for regulating the supply of money in the general interest."

B. What should total requirements be?

1. If you are to control the volume of deposits, reserve requirements must be related to the amount of reserves available.

(a) Present position

Gold	\$23 bil.	Notes	\$24 bil.
Governments	23 "	Reserve deposits	20 "
		Other dep.	2 "

(b) Change within the past year

Gold	/ 1½ bil.	Notes	- ½ bil.
Governments	/ 1 "	Reserve deposits	/ 3 "

2. Can compensate for reduced control over volume of reserves through greater control over requirements

C. How should each bank's share of the total be determined?

1. Principles

(a) General

Reserve requirements may be thought of as immobilized assets

Amount a bank must hold is its contribution to effective national monetary policy

(b) Basic principle is equity

- (1) Hornet's nest: the nonmember bank problem
- (2) Location vs. character of business

(c) Administratively feasible

(d) Smooth transition

2. A specific plan: five points

(a) Abolish reserve city designations

(b) Classify deposits

- (1) Interbank (30%)
- (2) Other demand (20%)
- (3) Other time (6%)

(c) Vault cash as reserves

(d) Due froms as partial reserves

(e) Authority to change requirements

II. The current problem

A. How to control total volume of reserves

1. Open Market Policy
2. Debt management policy
  - (a) Funding - refunding, etc.

B. How best to absorb additional reserves unavoidably created as result of A.

Answer depends on what aspects are considered most important - including incidental effects

1. If chief concern is with smooth transition and danger of very great increase in volume of reserves, then

Ceiling reserve plan - that is, 100% reserves against increase in deposits

This solution raises questions about bank earnings

2. If concern is bank earnings, then payment of interest on all or part of reserves
3. Possible combinations

y bonds with  
n-reserve money