A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, July 14, 1936, at 10:30 a. m.

PRESENT: Mr. Eccles, Chairman
Mr. Broderick
Mr. Szymczak
Mr. McKee
Mr. Ransom
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary
Mr. Clayton, Assistant to the Chairman
Mr. Thurston, Special Assistant to the Chairman
Mr. Goldenweiser, Director of the Division of Research and Statistics
Mr. Smead, Chief of the Division of Bank Operations
Mr. Parry, Chief of the Division of Security Loans

Chairman Eccles reviewed briefly the consideration which had been given by the Board to the question of the advisability of an increase in reserve requirements of member banks pursuant to the provisions of the sixth paragraph of Section 19 of the Federal Reserve Act and suggested that the matter be taken up for action at this meeting.

Messrs. Broderick, Ransom and Szymczak stated that they felt that the time had arrived when action should be taken and there followed a general discussion of the subject.

Mr. Davis stated that since he had been a member of the Board for only a short period he had not been able to complete his study of the problem of excess reserves and therefore that he had not reached a conclusion as to the advisability of an increase in reserve require-

ments. He referred to the question of the possible effect upon loan policies of member banks and there was a discussion of the trends of deposits and loans and investments of member banks and the foundation that has been laid for the development of a possible injurious credit expansion.

Discussion was also had with respect to the steps that might be taken by the Board and the Federal Open Market Committee in the event action by the Board to increase reserve requirements should have a temporary unsettling effect on the market for securities or should result in restrictive lending policies. It was suggested that, in order to offset any misunderstanding that a raise in reserve requirements constituted a reversal of the present easy money policy of the System, it might be desirable for the Federal reserve banks to reduce their discount rates and also the rates charged on industrial advances made under the provisions of section 13b of the Federal Reserve Act. In this connection the opinion was expressed that the statement of the reasons for the Board's action which should be published at the time of taking the action would be at least as important as the action itself.

Mr. McKee outlined his reasons for the belief that it would be desirable for the Board to defer action, for at least a short period, on the question of a change in reserve requirements and stated that he did not believe the situation called for action at this time.

After a further discussion, Mr. McKee moved that action increasing reserve re-

quirements be deferred until September 1, 1936, or until such earlier date as the situation justifies such action.

This motion was put by the Chair and lost, Mr. McKee voting "aye" and all the other members "no".

At the request of Chairman Eccles, Mr. Thurston read a preliminary draft of a statement which was then discussed paragraph by paragraph and amended to read as follows, with the understanding that, if reserve requirements were increased in an amount other than 50% of the present requirements, appropriate changes would be made in the amounts shown in the statement:

"The Board of Governors of the Federal Reserve System today increased the reserve requirements for member banks as follows: on demand deposits at banks in central reserve cities, from 13 percent to 19½ percent; at banks in reserve cities, from 10 percent to 15 percent; and at 'country' banks, from 7 percent to 10½ percent; on time deposits at all banks, from 3 percent to 4½ percent. These increases, which amount to 50 percent of present reserve requirements, will become effective after the close of business on August 15, 1936.

"This action eliminates as a basis of possible injurious credit expansion a part of the excess reserves, amounting at present to approximately $3,000,000,000 and expected to increase to nearly three and a half billions by the time this action takes effect. These excess reserves have resulted almost entirely from the inflow of gold from abroad and not from the System's policy of encouraging full recovery through the creation and maintenance of easy money conditions. This easy money policy remains unchanged and will be continued.

"The part of the excess reserves thus eliminated is superfluous for all present or prospective needs of commerce, industry, and agriculture and can be absorbed at this time without affecting money rates and without restrictive influence upon member banks, practically all of which now have far more than sufficient reserves and balances with other

"banks to meet the increase. Furthermore, by this action the remaining volume of excess reserves, which will still be larger than at any time in the System's history prior to the recent large inflow of gold, is brought within the scope of control by the Federal Open Market Committee which, as constituted by the Banking Act of 1935, consists of the members of the Board of Governors and five representatives elected regionally by the Federal Reserve banks.

"Excess reserves are the funds held by member banks on deposit with the Federal Reserve banks in excess of the amounts required by law. Total reserve deposits of member banks at the present time are $5,900,000,000, of which $2,900,000,000 are required reserves and $3,000,000,000, excess reserves. According to present indications it is estimated that total reserves are likely to increase by as much as $400,000,000 before the increase in reserve requirements goes into effect on August 15, bringing the estimated total of reserves at that time to approximately $6,300,000,000. By the present action required reserves will be increased by $1,450,000,000, or from $2,900,000,000 to $4,350,000,000. This will leave excess reserves of approximately $1,900,000,000. Therefore, even after the increase in reserve requirements has gone into effect, member banks will still have a larger volume of excess reserves than at any time prior to the recent large gold imports.

"Present excess reserves of approximately $3,000,000,000, are likely to increase to a new peak of nearly three and a half billions by the time the increase in reserve requirements becomes effective because of an expected reduction in Treasury balances and a decrease in money in circulation, which at the present time is exceptionally high owing to the large disbursements in connection with the cashing of veterans' service bonds.

"The portion of existing excess reserves, which will be absorbed by the Board's action, if permitted to become the basis of a tenfold or even larger expansion of bank credit, would create an injurious credit expansion. It is for this reason that the Board decided to lock up this part of the present volume of member bank reserves as a measure of prevention on the one hand and of further encouragement to sound business recovery and confidence in the long-term investment market on the other hand.

"The present is an opportune time for the adoption of such a measure. While there is now no excessive credit expansion, since the excess reserves have not been utilized, later action when some member banks may have expanded their

"loans and investments and utilized their excess reserves might involve the risk of bringing about a severe liquidation and of starting a deflationary cycle. It is far better to sterilize a part of these superfluous reserves while they are still unused than to permit a credit structure to be erected upon them and then to withdraw the foundation of the structure.

"Thorough surveys made by the Board show that the reserves are so well distributed that practically all member banks are in a position to meet the increased requirements either by utilizing their excess balances with the Reserve banks or by drawing upon their excess balances with correspondent banks.

"In the light of recent experience and in view of the fact that after the increase in requirements goes into effect member banks will still have approximately $1,900,000,000 of excess reserves, the Board is convinced that this action will not affect easy money conditions now prevailing. It does not constitute a reversal of the easy money policy which has been pursued by the System since the beginning of the depression. Rather it is an adjustment to a changed reserve situation brought about through the extraordinary inflow of gold from abroad.

"The prevailing level of long-time interest rates, which has been an important factor in the revival of the capital market, has been due principally to the large accumulations of idle funds in the hands of individual and institutional investors. The supply of investment funds is in excess of the demand. The increase in reserve requirements of member banks will not diminish the volume of deposits held by these banks for their customers and will, therefore, not diminish the volume of funds available for investment. The maintenance of an adequate supply of funds at favorable rates for capital purposes, including mortgages, is an important factor in bringing about and sustaining a lasting recovery.

"The reduction of excess reserves to an estimated level of approximately $1,900,000,000 brings them within the scope of control through the System's open-market portfolio which consists of $2,430,000,000 of United States Government securities. Frequent changes in reserve requirements of member banks should be avoided because they affect all banks regardless of their reserve position. At this time an increase can be made equitably because reserves are widely distributed. Unless large additional increases in reserves occur through gold imports or otherwise, no occasion for further adjust-

"ments in reserve requirements is likely to arise in the near future.

"For current adjustments of the reserve position of member banks to changes in the credit situation the Reserve System should continue to rely on the traditional methods of credit control through discount policy and particularly through open-market operations. By the present action excess reserves will be reduced to within the amount that could be absorbed through open-market operations, should such action become desirable. Conversely, should conditions develop requiring expansion of reserves, they could be increased through open-market operations.

"The Board of Governors believes that the action taken at this time will give assurance for the continued encouragement of full recovery.

"The following table gives estimates as of August 15 of the reserves of member banks by classes before and after the increase in reserve requirements.

"ESTIMATED RESERVE POSITION OF MEMBER BANKS ON AUGUST 15, 1936
(In millions of dollars)

	Total reserves	Before increase in requirements		After increase in requirements	
		Required reserves	Excess reserves	Required reserves	Excess reserves
Central reserve city banks	3,000	1,500	1,500	2,250	750
Reserve city banks	2,200	950	1,250	1,400	800
'Country' banks	1,100	450	650	700	400
All member banks	6,300	2,900	3,400	4,350	1,950"

During the discussion of the draft of the statement quoted above, Mr. Vest, Assistant General Counsel, joined the meeting.

Mr. Szymczak moved that, pursuant to the authority granted to the Board by section 19 of the Federal Reserve Act as amended, in order to prevent injurious credit expansion, for the reasons set forth in the above statement, and effective after the close of business on August 15, 1936, the Board increase by 50% the requirements as to the reserves

to be maintained against demand and time deposits by all member banks; that the Federal reserve banks be advised immediately by wire of the Board's action; and that the statement set forth above be given to the press as soon as possible for release in tomorrow morning's newspapers.

There followed further discussion of the actions that might be taken by the Board and the Federal Open Market Committee in the event an increase in reserve requirements should have a temporary unsettling effect on the market for securities or should result in restrictive lending policies and the opinion was expressed by the members of the Board that both the Board and the Federal Open Market Committee should promptly take such further action as might be appropriate to counteract such effects.

Mr. Davis stated that, as he had not had an adequate opportunity to make a complete investigation of the problems involved in an increase in reserve requirements, he was not prepared to vote in favor of an increase at this time.

At the conclusion of the discussion, Mr. Szymczak's motion was put by the Chair and carried, the members voting as follows:

Mr. Eccles	"aye"
Mr. Broderick	"aye"
Mr. Szymczak	"aye"
Mr. Ransom	"aye"
Mr. McKee	"no"
Mr. Davis	"no"

Upon motion by Mr. Ransom in order to carry into effect the Board's action, the following supplement to Regulation "D", Re-

serves of Member Banks, was approved and adopted by like vote of the Board members, with the understanding that it would be telegraphed to the Federal reserve banks this afternoon, together with the statement referred to above:

"SUPPLEMENT TO REGULATION D

"Effective as to each member bank after the close of business August 15, 1936.

"Reserves required to be maintained by member banks with Federal Reserve banks.

"Pursuant to the provisions of section 19 of the Federal Reserve Act and section 2(a) of its Regulation D, the Board of Governors of the Federal Reserve System hereby increases by 50 per cent the percentages of time deposits and net demand deposits set forth in paragraphs (a), (b), and (c) of section 19 of the Federal Reserve Act and section 2(a) of Regulation D which each member bank is required to maintain on deposit with the Federal Reserve bank of its district."

Thereupon at 3:15 p. m. the meeting recessed and reconvened at 4:15 p. m. with the same attendance as at the morning session with the exception of Messrs. Smead and Vest who were not present.

Preliminary to a consideration by the Board of the question of the advisability of a change at this time in the margin requirements prescribed in Regulations T and U, Mr. Parry reviewed the recent trends in the securities markets, changes in the total borrowings of customers from brokers and dealers and from banks as well as in the total borrowings of brokers and dealers, and changes in prices of securities during the last six or eight months. He outlined reasons why in his opinion there was no necessity for action by the Board at this time to change the maximum loan values prescribed in Regulations T and U on securities pledged as collateral for loans by brokers and dealers and by banks to their customers, and discussed reasons which he felt justified an increase

from 60% to 75% in the maximum loan value, prescribed in the regulations, on loans to brokers and dealers for the purpose of carrying accounts of customers. He pointed out that there were other amendments of somewhat lesser importance that might be considered in this connection.

At the conclusion of Mr. Parry's statement it was agreed that a meeting would be held at 10:30 a. m. tomorrow for the purpose of considering further the action to be taken by the Board with respect to amendments to Regulations T and U or the supplements thereto.

At this point Messrs. Thurston, Goldenweiser, and Parry left the meeting and consideration was then given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on July 13, 1936, were approved unanimously.

Telegram to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Letter to Mr. Edward S. Keogh, Vice President, The Citizens National Bank of Freeport, Freeport, New York, reading as follows:

> "This refers to your letter of July 8, 1936, in which you state that a meeting of the stockholders of your bank is to be held on July 21, 1936, and inquire whether any action by the Board is necessary in order for Ranborough Corporation

"to vote the stock which it owns or controls of your bank.

"As stated in its letter of November 22, 1935, to you, the Board at that time determined that Ranborough Corporation was not engaged as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies. As a result of such determination Ranborough Corporation ceased to be a holding company affiliate for any purposes other than those of section 23A of the Federal Reserve Act and such status continues indefinitely in the absence of a contrary determination by the Board or a change in the law. Accordingly, no action by the Board is necessary in order for Ranborough Corporation to vote the stock which it owns or controls of your bank.

"As you know, the Board did reserve the right to make a further determination with respect to Ranborough Corporation at any time on the basis of the then existing facts. However, it was not intended that the matter should be resubmitted to the Board in the absence of such a change in the facts as would indicate that the corporation might be engaged as a business in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies. In this connection, it is understood from your letter that there has been no material change in the facts."

Approved unanimously.

Letter to Mr. Stewart, Secretary of the Federal Reserve Bank of St. Louis, reading as follows:

"Reference is made to your letter of July 6 in regard to the proposed continuance of your bank's contributory group life insurance policy.

"It is noted that the estimated cost to the bank, exclusive of any dividend, during the year ending July 31, 1936, is estimated at $3,200, and that a dividend of $1,900 is anticipated.

"The Board will interpose no objection to your continuing your contributory group life insurance contract indefinitely or until such time as you are otherwise advised by the Board provided the annual cost thereof to the bank does not materially exceed the estimated net cost of $1,300 for the year ending July 31, 1936."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved: M S Eccles
Chairman.