A meeting of the Board of Governors of the Federal Reserve System with the Presidents of the Federal Reserve Banks was held in Washington on Monday, January 25, 1937, at 3:00 p.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
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
Mr. Dreibelbis, Assistant General Counsel
Mr. Thomas, Assistant Director of the Division of Research and Statistics

Messrs. Young, Harrison, Sinclair, Fleming, Leach, Newton, Schaller, Martin, Peyton, Hamilton, McKinney and Day, Presidents of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas and San Francisco, respectively

Mr. Burgess, Vice President of the Federal Reserve Bank of New York and Manager of the System Open Market Account
Mr. Williams, Vice President of the Federal Reserve Bank of New York and Associate Economist of the Federal Open Market Committee
Mr. Strater, Vice President of the Federal Reserve Bank of Cleveland and Secretary of the Presidents Conference.

It was stated that this meeting had been called to hear statements by Messrs. Goldenweiser and Williams with respect to the present credit and monetary situation and for an informal discussion of the situation with the Presidents of the Federal reserve banks.

Mr. Goldenweiser reviewed the growth of the excess reserves of member banks, the possible credit expansion based on the present volume of reserves, and what the situation would be with respect to credit expansion if action were taken increasing reserve requirements 33 1/3%, or to double the statutory requirements. He also referred to the feeling that some action by the Federal Reserve System to absorb a substantial portion of existing excess reserves was necessary and stated that it appeared to him that the problems before the System were (1) what form that action should take and (2) the timing of such action. In connection with the latter point, he discussed various occasions in the past when action reversing existing policy, or in line with an agreed policy, had not been taken at the proper time or not vigorously enough, as illustrative of the utmost importance of proper timing of System action. He stated that an increase in reserve requirements would not constitute a reversal of the present easy money policy but would place the System in a position to exert an influence on the money market through operations in the System Open Market Account.

In considering whether action should be taken at this time, Mr. Goldenweiser said, the System was confronted with a different situation than existed last July when action was taken by the Board to increase reserve requirements, in that excess reserves were larger at that time, it did not appear then that the action would have any material effect upon money rates, and there was at that time a possibility of further increases in excess reserves resulting from gold imports.

He also discussed the present volume of industrial production and employment and other indications that recovery was well advanced and much stronger than when action was taken by the Board to increase reserve requirements in July, and said that the principal reasons for doubt as to whether action should be taken at this time were the continued volume of unemployment and labor troubles now present and in prospect.

He then expressed the opinion that the most effective time for action to prevent the development of unsound and speculative situations is in the early stages of such a movement when the situation is still susceptible of control, and that, as present indications were that such a time had arrived, as the technical market situation is favorable for action at the present time, and as short-term rates had been abnormally low in relation to long-term rates and some stiffening of the former would be desirable, action to absorb excess reserves should be taken at this time.

In connection with the question of the form that System action should take, if and when action is decided upon, Mr. Goldenweiser said he felt that in the course of the next year or more the System would be called upon to use more than one of the available instrumentalities to decrease excess reserves; and that, if it were going to be necessary sooner or later to increase reserve requirements, such action should be taken at a time when the banks could meet the increased requirements without substantial difficulty, as is the case at the present time. A survey recently completed by the Board, Mr. Goldenweiser said, showed that excess reserves of member banks, which totalled approximately $2,100,000,000 (approximately $600,000,000 more than the amount required to meet a 33 1/3% increase in reserve requirements), were generally well distributed among groups of banks; that all but 2,435 banks had sufficient balances at the Federal reserve banks at the present time to meet such an increase, and that all but 197 of these banks could furnish the required additional reserves by a transfer of not more than 50% of their balances with correspondent banks. He also stated that the 197 banks would have a deficiency in reserves of approximately $123,000,000, and that, while 168 of these banks were country banks, 149 of which were located in the Boston, New York, Philadelphia and Cleveland districts, these 168 country banks would have a reserve deficiency of only $2,349,000.

In discussing the objection that had been raised to an increase in reserve requirements that such action would deprive the member banks of additional earning assets, Mr. Goldenweiser stated that this would be true only in the case of a few banks which would find it necessary to dispose of earning assets to meet reserve requirements and that in all other cases the increase would result in the segregation as required reserves of idle funds of member banks on which no return was being received, and which had originated largely from gold imports.

In connection with the suggestion that a further increase in reserve requirements would result in the requirements of member banks being substantially higher than requirements in the various States for nonmember banks, Mr. Goldenweiser said that a study had been made recently of this matter, that the statutory requirements were confusing and difficult to compare, but that it appeared probable that, while the required reserves of member banks would be higher than the legal requirements for nonmember banks in most States, the difference in reserves actually maintained would not be very great when cash in vault and balances with other banks were taken into consideration. He also observed that the study indicated that the States with the smallest number of member banks were not the States with the lowest reserve requirements for nonmember banks and that it did not appear that reserve requirements were the determining factor in the decision of State banks to become members or to retain membership in the Federal Reserve System.

With respect to a suggestion as to country banks that there should be no increase in reserve requirements, or a smaller increase than in the case of reserve city banks, Mr. Goldenweiser said that these banks as a group had a large aggregate amount of excess reserves and excess balances with correspondents and could easily meet the increased requirements. An exemption of time deposits from an increase in reserve requirements, Mr. Goldenweiser said, had been suggested, but such an exemption should not be made as it would result in an increase in the actual differential between the reserve requirements for time and demand deposits and was undesirable for that reason. Whether time deposits are money or not was a subject of controversy among economists, but, he pointed out, the Federal Reserve System has supervisory and administrative as well as monetary responsibilities, is interested in the assets of banks as well as in their liabilities, and, therefore, cannot ignore time deposits, which, together with demand deposits, provide the funds for their loans and investments.

He then expressed the opinion that an increase in reserve requirements by 33 1/3% at this time would not involve a great risk on the part of the Federal Reserve System, and that this action would place the System in closer touch with the money market where it could influence the market by other means and would restore the System to the position in relation to the market which it normally should occupy.

Mr. Williams stated that he felt the business and economic situation in the United States had reached what might be regarded in a general way as normal and that there were some indications that in certain respects it was going beyond a normal state. That being the case, he said, and in view of the emergency atmosphere which has been a factor in the consideration of problems during the years of the depression, it was necessary that the System keep its perspective of what the normal situation should be. He also expressed the opinion that prior to the depression a total of $500,000,000 of excess reserves would have been regarded as an unprecedented factor in the credit situation, that this should be borne in mind in dealing with the present problem, and that some action should be taken as promptly as possible to absorb the existing substantial amount of excess reserves, which should not be held under normal conditions. In referring to the question whether action should be taken in the face of existing labor troubles, Mr. Williams expressed the opinion that, while the strikes which are now in progress may delay full recovery, they would not destroy recovery and that, therefore, they did not present a sufficient reason for inaction by the System.

While it might prove to be the case, Mr. Williams said, that some banks would have to borrow to meet an increase in reserve requirements at the present time, he felt this problem could be met by them without a substantial amount of borrowing in the aggregate, and that the longer action by the System was delayed the greater would be the likelihood that the action which would be required at a later date would produce the necessity for liquidation by member banks. He agreed with the statement made by Mr. Goldenweiser that the most serious errors made in the past were the cases where action was too long delayed while waiting for a more favorable occasion for action, or was not sufficiently vigorous, and stated that he believed the System was confronted today with the danger of delaying action too long in the face of a business situation which was daily becoming more active.

Mr. Williams concluded with the statement that it appeared that there was every argument for early action by the System, that he felt that the Board should increase reserve requirements to the limit of its authority, and that this would place the System in a position to deal effectively with the problems which would arise later in connection with the control of credit through the medium of open market operations.

There followed a discussion, in the light of the statements made by Messrs. Goldenweiser and Williams, of the question whether action should be taken by the System to reduce the existing amount of excess reserves and, if so, what form that action should take, and a majority of the Presidents expressed the opinion that action should be taken by the Board of Governors to increase reserve requirements.

At the conclusion of the discussion the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.