A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Saturday, January 30, 1937, at 10:00 a.m.

PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Broderick
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. Dreibelbis, Assistant General Counsel

Chairman Eccles reviewed for the information of Mr. McKee the developments yesterday in connection with the requests that the Board defer the effective date of subsection 1(f), entitled "Interest", of Regulation Q, Payment of Interest on Deposits. The Chairman then read a letter just received by him from Representative Steagall reading as follows:

"I am in receipt of many letters, telegrams and telephone calls from bankers expressing strenuous opposition to subsection (f) of Section I of Regulation Q of the Federal Reserve Board, to become effective February 1, 1937, and insisting that the results would be disastrous to the successful operation of many banks. You are familiar with my views in this connection, but I wish to urge the Federal Reserve Board to postpone this order for further consideration. Meantime, I shall be glad to cooperate in securing passage "of any legislation that may be thought necessary or desirable to remove all differences of interpretation of existing law."

Mr. Ransom stated that he felt that action should be taken by the Board to postpone the effective date of subsection 1(f) of Regulation Q pursuant to the requests of Messrs. Steagall and Wagner and that, if such action were taken by the Board, he would like to have authority (1) to confer freely with members of Congress in connection with the formulation and progress of any legislation that members of Congress might propose to meet the situation, and (2) if it was thought that it would prove helpful to send a questionnaire to all banks which have addressed communications to the Board objecting to the definition of "interest" contained in subsection 1(f), for the purpose of developing for the information of Congress the objections that member banks have to the definition.

Thereupon, Mr. Ransom moved that the Board adopt the following resolution:

"RESOLVED, That the date upon which subsection (f), entitled 'Interest', of section 1 of Regulation Q will become effective is deferred until May 1, 1937."

Carried unanimously.

The authority requested by Mr. Ransom as outlined above was also granted by unanimous vote.

Consideration was then given to a draft of statement for the press with respect to the Board's action and, upon motion by Mr. Ransom, was approved unanimously in the following form:

"Chairman Steagall, of the House Banking and Currency Committee, and Chairman Wagner, of the Senate Banking "and Currency Committee, have requested the Board of Governors of the Federal Reserve System to postpone the effective date of the definition of interest contained in subsection (f) of section 1 of the Board's Regulation Q, which the Board on December 21, 1936, announced would become effective on February 1, 1937.

"The Board, after careful consideration, had reached the conclusion that the law and the existence of certain banking practices required the adoption of this definition but the Board feels that the request which these two Chairmen have now made should be granted in view of the fact that the Board has been informed that a number of Members of Congress are giving consideration to the question of the advisability of amending the law under which the Board's regulation was issued, and desire additional time for that purpose. The Board, therefore, has postponed from February 1 to May 1, 1937, the effective date of subsection (f) of section 1 of Regulation Q, which contains the definition of interest."

In connection with the above matter the following letter to Representative Steagall was approved unanimously, with the understanding that it would be signed by the Chairman and transmitted by messenger today, and that Senator Wagner would be advised of the action taken by the Board:

"Your letter of this date, in which you requested that the Board postpone the effective date of subsection 1(f), entitled 'Interest', of Regulation Q, Payment of Interest on Deposits, was delivered by special messenger at my office this morning and was immediately placed before the Board for consideration.

"As I advised you over the telephone yesterday, the Board, after careful consideration, had reached the conclusion that the law and the existence of certain banking practices required the adoption of this definition. However, the Board has requested me to advise you that it feels that the request received from you and from Chairman Wagner of the Committee on Banking and Currency of the Senate should be granted in view of the fact that it has been informed that a number of members of Congress are giving consideration to the question of the advisability of amending the law under which the Board's regulation was issued and desire additional time for that purpose. It is understood that this "is the 'further consideration' to which reference is made in your letter. The Board has noted from your letter that you will cooperate with the members of Congress, who have the matter under consideration, in securing the passage of any legislation that may be thought necessary or desirable to remove all differences of interpretation of existing law.

"In view of these circumstances, the Board has postponed from February 1 to May 1, 1937, the effective date of subsection 1(f) of Regulation Q and has taken steps to advise all member banks accordingly."

Chairman Eccles then reviewed for the information of Mr. McKee the discussions which had been had yesterday with respect to the advisability of action by the Board to increase reserve requirements of member banks, and Mr. McKee summarized information which he had gathered while he was absent from Washington with respect to the matter.

Mr. Szymczak moved that the following resolution be adopted:

"RESOLVED, That the following supplement to Regulation D be adopted and promulgated by the Board:

"SUPPLEMENT TO REGULATION D

"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 increases by 33-1/3 per cent the reserve requirements established by the Supplement to Regulation D made effective at the close of business on August 15, 1936: Provided, however, That 1/2 of such increase shall be effective as to each member bank at the opening of business on March 1, 1937, and the remaining 1/2 of such increase shall be effective as to each "member bank at the opening of business on May 1, 1937.*

"* Effective at the opening of business on March 1, 1937, the requirements as to reserves to be maintained by each member bank will be 75 per cent above the requirements prescribed by section 19 of the Federal Reserve Act and, effective at the opening of business on May 1, 1937, the requirements as to reserves to be maintained by each member bank will be 100 per cent above the requirements prescribed by section 19 of the Federal Reserve Act."

There followed a discussion of various phases of the problem, in the light of the careful consideration that had been given to the matter.

At the conclusion of the discussion, Mr. Szymczak's motion was put by the chair and carried, Mr. McKee voting "no".

A revised draft of the statement considered at the meeting of the Board yesterday was then considered and approved in the following form for release for publication in the morning papers of Sunday, January 31, Mr. McKee not voting:

"The Board of Governors of the Federal Reserve System today increased reserve requirements for member banks by 33-1/3 percent, as follows: On demand deposits, at banks in central reserve cities, from 19-1/2 to 26 percent; at banks in reserve cities, from 15 to 20 percent; and at 'country' banks, from 10-1/2 to 14 percent; on time deposits, at all banks, from 4-1/2 to 6 percent. For the purpose of affording member banks ample time for orderly adjustment to the changed requirements, one half of the increase will become effective as of the opening of business on March 1, 1937, and the remaining half will become effective as of the opening of business on May 1.

"The following table shows what the reserve requirements are at present, what they will be from March 1 through April 30, and what they will be commencing May 1:

"Reserve Requirements
(percent of deposits)

Class of bank	Demand Deposits			Time Deposits		
	Present Require-ments	March 1 through April 30	May 1 and after	Present Require-ments	March 1 through April 30	May 1 and after
Central reserve city	19-1/2	22-3/4	26	4-1/2	5-1/4	6
Reserve city	15	17-1/2	20	4-1/2	5-1/4	6
"Country"	10-1/2	12-1/4	14	4-1/2	5-1/4	6

"This action completes the use of the Board's power under the law to raise reserve requirements to not more than twice the amount prescribed for member banks in section 19 of the Federal Reserve Act.

"The section of the law which authorizes the Board to change reserve requirements for member banks states that when this power is used it shall be 'in order to prevent injurious credit expansion or contraction.' The significance of this language is that it places responsibility on the Board to use its power to change reserve requirements not only to counteract an injurious credit expansion or contraction after it has developed, but also to anticipate and prevent such an expansion or contraction.

"By its present action the Board eliminates as a basis of possible credit expansion an estimated $1,500,000,000 of excess reserves which are superfluous for the present or prospective needs of commerce, industry, and agriculture and which, in the Board's judgment, would result in an injurious credit expansion if permitted to become the basis of a multiple expansion of bank credit. The Board estimates that, after the full increase has gone into effect, member banks will have excess reserves of approximately $500,000,000, an amount ample to finance further recovery and to maintain easy money conditions. At the same time the Federal Reserve System will be placed in a position where such reduction or expansion of member bank reserves as may be deemed in the public interest may be effected through open-market operations, a more flexible instrument, better adapted for keeping the reserve position of member banks currently in close adjustment to credit needs.

"As the Board stated on July 15, 1936, in its announcement of the previous increase of reserve requirements, excess "reserves then held by member banks had resulted almost entirely from the inflow of gold from abroad rather than from the System's credit policy. Since that time the country's gold stock has been further increased by a large inflow of gold, amounting to $600,000,000. Between the time of the banking holiday in 1933 and December 24, 1936, when the United States Treasury put into effect its program for preventing acquisitions of gold from adding to the country's banking reserves, the gold inflow aggregated approximately $4,000,000,000. This inflow of gold had the effect of adding an equal amount to the reserves of member banks as well as to their deposits. The total amount of deposits in banks and the Postal Savings System, plus currency outside of banks, is now $2,000,000,000 larger than in the summer of 1929.

"The present volume of deposits, if utilized at a rate of turnover comparable to pre-depression levels, is sufficient to sustain a vastly greater rate of business activity than exists today. In order to sustain and expand recovery, the country's commerce, industry, and agriculture, therefore, require a more complete and productive utilization of existing deposits rather than further additions to the amount now available.

"The excess reserves of about $1,500,000,000 eliminated as a base of further credit expansion by this action could support an increase in the supply of money, in the form of bank credit, which beyond any doubt would constitute an injurious credit expansion.

"The present is an opportune time for action because, as was the case when the Board announced its prior action last July, excess reserves are widely distributed among member banks, and balances with correspondent banks are twice as large as they have generally been in the past. All but a small number of member banks have more than sufficient excess reserves and surplus balances with other banks to meet a 33-1/3 percent increase in reserve requirements. As of January 13, the Board's survey indicates that only 197 of the 6,367 member banks lacked sufficient funds to meet such an increase in reserve requirements by utilizing their present excess balances with the reserve banks and not more than one-half of their balances with correspondent banks. On this basis these 197 banks, in order to meet the full requirements, would have needed an additional $123,000,000, of which $110,000,000 would have been needed by banks in central reserve cities, $11,000,000 by banks in other reserve cities and only $2,300,000 by country banks.

"Another reason for action at this time is that, as stated by the Board last July, '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.'

"The available methods of absorbing excess reserves have been under consideration. It has been decided that under present circumstances changes in reserve requirements should precede reduction in reserves through open-market operations, because changes in requirements affect all banks, regardless of their reserve position, and consequently should be made while reserves are widely distributed.

"This action increases reserve requirements to the full extent authorized by law. It is not the present intention of the Board to request from Congress additional authority to absorb excess reserves by means of raising reserve requirements.

"It is the Board's expectation that, with approximately $500,000,000 of excess reserves remaining with the banks, credit conditions will continue to be easy. At the same time the Reserve System will be in a position to take promptly such action as may be desirable to ease or tighten credit conditions through open-market and rate policy.

"In announcing the previous increase in reserve requirements, the Board said:

> '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 same considerations apply with equal force at the present time. The Board's action does not reduce the large volume of existing funds available for investment by depositors, and should not, therefore, occasion an advance in "long-term interest rates or a restrictive policy on the part of institutional and other investors in meeting the needs for sound business, industrial and agricultural credit.

"In view of all these considerations, the Board believes that the action taken at this time will operate to prevent an injurious credit expansion and at the same time give assurance for continued progress toward full recovery."

Mr. McKee stated that he had been advised of the action taken at the meeting of the Board yesterday with respect to the salaries of officers of the Federal Reserve Bank of Chicago and that he was in agreement therewith.

At this point Messrs. Thurston, Goldenweiser, Smead and Dreibelbis 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 meetingsof the Board of Governors of the Federal Reserve System held on January 29, 1937, were approved unanimously.

Bond, in the amount of $50,000, executed under date of January 16, 1937, by Mr. Clement Paul Gowland as Acting Assistant Federal Reserve Agent at the Federal Reserve Bank of Dallas.

Approved unanimously.

Letter to The Chase Bank, New York, New York, prepared for the signature of the Board's Fiscal Agent, and reading as follows:

"You are advised that the cost of the examination of your bank, made by examiners of the Board of Governors of the Federal Reserve System as of the close of "business October 3, 1936, was $180.33.

"You are requested to deposit this amount in the Federal Reserve Bank of New York, with instructions to that bank to credit it to the Federal Reserve Bank of Richmond for the account of the Board of Governors of the Federal Reserve System."

Approved unanimously, together with a letter, to be signed by the Fiscal Agent, to Mr. Harrison, President of the Federal Reserve Bank of New York, reading as follows:

"The Board is today advising the Chase Bank that the cost of the examination of the Bank, made by examiners of the Board as of the close of business October 3, 1936, was $180.33, and is requesting that the bank deposit this amount in the Federal Reserve Bank of New York, with instructions to you to credit it to the Federal Reserve Bank of Richmond for the account of the Board of Governors of the Federal Reserve System.

"You are accordingly requested, upon receipt of this amount from the Chase Bank, to credit the Federal Reserve Bank of Richmond in your daily statement of credits through the Inter-district Settlement Fund for the account of the Board of Governors of the Federal Reserve System, and advise the Federal Reserve Bank of Richmond by wire the amount and purpose of the credit."

Thereupon the meeting adjourned.

Chester Morrill
Secretary.

Approved:

M S Eccles
Chairman.