

A meeting of the Board of Governors of the Federal Reserve System with the Federal Advisory Council was held in the offices of the Board of Governors in Washington on Tuesday, February 21, 1950, at 10:30 a.m.

PRESENT: Mr. McCabe, Chairman  
Mr. Eccles  
Mr. Szymczak  
Mr. Draper  
Mr. Vardaman

Mr. Carpenter, Secretary

Messrs. Morrill, Thurston, Riefler, Thomas, Vest, Young, Horbett, and Sherman of the staff of the Board of Governors.

Messrs. Bucklin, Jackson, Potts, Congdon, Fleming, J. T. Brown, Edward E. Brown, Hemingway, Beals, Woods, and Lohead, members of the Federal Advisory Council from the First, Second, Third, Fourth, Fifth, Sixth, Seventh, Eighth, Tenth, Eleventh, and Twelfth Federal Reserve Districts, respectively.

Mr. Clarence E. Hill, who was attending the meeting as alternate for Joseph F. Ringland, member of the Federal Advisory Council from the Ninth Federal Reserve District.

Mr. Prochnow, Secretary of the Federal Advisory Council.

Before this meeting, at the separate meeting of the Federal Advisory Council, Mr. Edward E. Brown was selected as President of the Council, Mr. Fleming as Vice President, and Messrs. Edward E. Brown, Fleming, Jackson, Potts, and Congdon as members of the executive committee of the Council for the current calendar year. Mr. Prochnow was re-elected Secretary of the Council for the year 1950.

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President Brown stated that in accordance with the understanding at the meeting with the Board on November 15, 1949, the members of the Federal Advisory Council had considered the staff memorandum sent to them under date of February 13, 1950, with respect to changes in the law to provide that reserve requirements of a member bank be based on the character of the bank's deposits rather than on the location of the bank. He said that the Federal Advisory Council had had an informal discussion of the matter yesterday with members of the Board's staff, with the understanding that the Council would take no action at this time with respect to the proposed plan, that the matter would be discussed with the Board of Governors today, and that any formal action that the Council might take would be deferred until a later meeting. A memorandum prepared by Messrs. Young and Horbett of the Board's staff summarizing the discussion of the Council and members of the staff yesterday, has been placed in the Board's files.

President Brown also referred to the recommendation in the President's 1950 economic report to Congress that reserve requirements be made applicable to nonmember insured banks as well as to member banks, to which Chairman McCabe responded that the Board had not recommended the inclusion of such a statement in the report.

President Brown suggested that perhaps the best way to proceed might be for each member of the Federal Advisory Council

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to express his views. The statements made by the individual members of the Council brought out the following points:

It was stated that since the present system of reserve city designations was provided for in the National Bank Act in 1864 and had not been changed basically since that time, a thorough study of the need for a change in the classification of banks for reserve purposes was long overdue, and that the staff study was constructive and presented a good basis for further consideration of the matter. It appeared to be the consensus that further study of the problem would be desirable but several members of the Council suggested that the present was not a suitable time for introducing legislation to change the system.

In commenting upon the reduction that would take place in reserve requirements of central reserve and reserve city banks under the introductory formula presented in the staff study, Mr. J. T. Brown and other members of the Council stated that if, as appeared to be contemplated, the aggregate volume of required reserves were to remain approximately the same as at present, it would be necessary to increase requirements at a large number of banks outside central reserve and reserve cities. He emphasized the view that an increase in reserve requirements of any substantial number of banks would result in strong opposition to any proposal that might be made and suggested that consideration be given to an adjustment in the

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formula which would not work a hardship on large numbers of non-reserve city banks.

Some of the members of the Council indicated that there was much to be said for the approach taken in the staff study whereby reserve requirements would be based upon type of deposit, rather than upon location of the bank, while others felt that interbank deposits probably were not more volatile than other demand deposits and that further consideration should be given to the suggested differential between reserve requirements for interbank deposits and other demand deposits. It was also suggested that consideration might be given to a formula which would require reserves according to the kind of business done by banks (as contrasted with the type of deposit), i.e., whether a bank was doing business with many large corporate accounts, or whether its deposits consisted mainly of other types of accounts. In this connection, Mr. Congdon stated that while he had no particular objection to the proposal in the staff study, he doubted that its adoption would be of much benefit and felt that as much would be accomplished if the Board could develop some policy on reserve city designations and make exemptions from such requirements for banks in outlying sections. He also suggested that study be given to allocating reserve requirements with appropriate allowances for float arising out of uncollected checks.

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Attention was called particularly to the position of banks serving stock yards which hold relatively large deposits classed as "interbank". It was stated that such deposits were not of the same character as correspondent interbank balances generally, and the suggestion was made that a study be undertaken to determine whether special treatment might be provided for banks having this particular type of interbank account. In the discussion of this question, emphasis was laid upon the view that any proposal which would place a burden on the present livestock marketing system would be strongly opposed by banks and others interested in that industry.

During a statement with respect to the volatility of interbank deposits, Mr. Potts presented statistics based upon accounts in his bank in Philadelphia to show that fluctuations in interbank deposits have not necessarily been greater than in other types of deposits, and he suggested that further study be given to the requirements that might be imposed against various categories of deposits.

With reference to the proposal in the staff study that vault cash be counted as part of the reserves of member banks, it was the consensus that this was logical and desirable.

In commenting on the possible effects on correspondent banking relationships, Mr. Hemingway stated that while a revision

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in reserve requirements along the lines outlined in the staff memorandum might be logical and desirable, much more sympathetic consideration would be given to it by reserve city bankers if the Board would make clear that it did not contemplate any action which would reduce the importance of correspondent banking.

The view was expressed that the members of the Council recognized there had been a change in the concept of reserves since the National Bank Act was passed in 1864 and that whereas they were originally provided as a device for the protection of depositors, it had now come to be recognized by most bankers that member bank reserve requirements had come to be an instrument of monetary and credit control.

Another view expressed was that the study by the Board's staff appeared to be based largely on the assumption that a change in the law would simplify some of the Board's administrative problems which arise in designating reserve cities and, to a minor extent, might improve its monetary and credit controls. It was also suggested that it might increase the effectiveness of reserves as a protection to depositors.

Following a general discussion of the staff study, Chairman McCabe expressed appreciation for the valuable suggestions that

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had been made by the members of the Council, stating that they would be given attention by the staff in its continuing study of the matter. He suggested that it would be helpful to the Board and its staff if the Council would appoint a committee to give further consideration to the proposal under discussion and offer suggestions to the Board in connection with it. President Brown stated that the Council would consider this suggestion.

Secretary's Note: Following the meeting, President Brown informed Chairman McCabe that he had appointed a committee for the purpose suggested, consisting of Messrs. Fleming (Chairman), Jackson, Potts, J. T. Brown, and Beals.

President Brown stated that it was contemplated that the next meeting of the Council would be held in Washington on May 14-16, 1950, and that inasmuch as the Conference of Chairmen of the Federal Reserve Banks had scheduled a meeting for September 18-19, 1950, the fall meeting of the Council which ordinarily would be held on September 17-19, would be held on October 1-3, 1950.

Thereupon, the meeting adjourned.

  
Secretary.

Approved:

  
Chairman.