Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, April 22, 1953. The Board met in the Board Room at 11:10 a.m.

PRESENT: Mr. Evans, Acting Chairman
Mr. Vardaman
Mr. Mills
Mr. Robertson

Mr. Carpenter, Secretary
Mr. Sherman, Assistant Secretary
Mr. Kenyon, Assistant Secretary
Mr. Thurston, Assistant to the Board
Mr. Thomas, Economic Adviser to the Board
Mr. Vest, General Counsel
Mr. Young, Director, Division of Research and Statistics
Mr. Youngdahl, Assistant Director, Division of Research and Statistics

Governor Evans referred to the record of Board policy actions for 1952, which was approved at the meeting on March 26, 1953, and suggested that the entry for May 6, 1952, relating to the suspension of Regulation W, Consumer Credit, be amended by changing the second sentence in the first paragraph of the explanatory statement to read as follows: "The inflationary pressures throughout the economy had abated considerably and the over-all demand for consumer durable goods was in a more balanced relation to the supply."

The change suggested by Governor Evans was approved unanimously.

At this point Chairman Martin joined the meeting.

Chairman Martin stated that he had just had a discussion in his office with Mr. Lewis Douglas and certain of his associates regarding the study which Mr. Douglas had been requested to make for the State Department, that it now appeared that the study was to be restricted to the problem of relationships between the United States and the United Kingdom rather than United States commercial policy in general, that various agencies were being requested to prepare papers relating to their fields of interest as part of the total study, and that the Board's Division of International Finance had been requested to submit material on the credit position of the United Kingdom and the effect of a possible decision by the British to go to a floating rate of exchange.

Reference was made to a letter dated April 14, 1953, from Mr. Sproul, President of the Federal Reserve Bank of New York, to Chairman Martin transmitting a brief submitted by the Clearing House Committee of the New York Clearing House Association suggesting the elimination of the differential between reserve requirements for central reserve city and reserve city banks. Copies of the brief had been distributed to the members of the Board prior to this meeting together with copies of President Sproul's letter, in which he commented on obstacles to immediate action to remove the differential, pointed out certain inequities in the present system of reserve requirements, and suggested a review by the System of the so-called uniform reserve plan with the thought that its adoption by the Congress might be possible at a time when it became appropriate to bring about some reduction in required reserves of all member banks.

Chairman Martin said that receipt of President Sproul's letter and the brief submitted by the New York Clearing House Association made it seem opportune to have a discussion of what steps might be taken by the Board in the event of a downward adjustment in business conditions.

Governor Evans said that he would look with some favor on a reduction in reserve requirements in the event of a downturn, particularly in view of recurrent complaints from "country" member banks regarding the inequitable position in which they were placed with respect to their nonmember competitors. The same thing held true, he said, in the case of other member banks. Governor Evans felt that President Sproul's remarks in favor of a uniform reserve plan tended to substantiate his position but he pointed out that proposals to revise the system of reserve requirements had been the subject of discussion for a long time. In the event of a business recession, Governor Evans assumed that the System would first act to make money available by steps that would result in lower interest rates.

During the course of Governor Evans' remarks, Mr. Riefler, Assistant to the Chairman, entered the room and, at the request of the Chairman, he outlined steps which Mr. Bryan, President of the Federal Reserve Bank of Atlanta, had suggested in a telephone conversation might be appropriate if there should be a marked business recession. The first step, President Bryan thought, should be a reduction in the discount rate, although he had in mind that the rate should be higher than two per cent when the circumstances arose which he was contemplating. As a second step, President Bryan suggested that it would be important to ease the money market through open market operations but he suggested a departure from past practice whereby the System would buy an amount of Government securities each week so that member banks would have the experience of an increasing ease of funds. President Bryan felt that as a third step there should be a reduction of reserve requirements "across the board" equal to the last increase in requirements or possibly half of such increase. He realized that if reserve requirements were lowered, it would mean that the System would have to be prepared to live with the lower requirements for quite a period, but he felt that such action probably would be necessary because of his belief that the problems of adjustment if the current boom should come to an end would be more difficult than in the case of most business fluctuations.

Mr. Riefler said that President Bryan also felt quite strongly that in the event of a recession, the Reserve Banks should alter their discount practices in two respects. First, there should be no effort to persuade member banks to borrow less than the full amount requested when they came to the "discount window". Second, where communities were under serious financial strain due to large movements of capital, the Reserve Banks should be prepared to lend to member banks in those communities for long periods. Mr. Riefler said he suggested to President Bryan that he discuss these proposals at the next meeting of the Presidents' Conference.

Chairman Martin next called upon Mr. Thomas, who expressed the opinion that the suggestions made by President Bryan represented a good line of approach to the problem. He felt that the System might well have to consider some reduction in reserve requirements, and he hoped that this might be accomplished through legislation authorizing some uniform plan of reserve requirements. Mr. Thomas thought that the System would want to engage in some open market operations; that although a downturn in business would create a relatively easy situation in the money market, some banks probably would be in debt and the System probably should make it possible for them to get out of debt; and that, while the slackening of demand for credit should ease the situation, at the beginning there would be involuntary accumulations of inventories and the System might want to provide funds so that banks would not press for liquidation. He hoped it would not be necessary to lower the discount rate below two per cent, which is a low rate historically.

Mr. Young expressed the feeling that since the System had returned to "orthodox" policies on the upswing in the business cycle, it should follow a path of "orthodoxy" to the degree possible in any downswing. By "orthodoxy" he meant reliance on open market operations and the discount mechanism as against changing reserve requirements. He was also inclined to feel on balance that the discount rate should not be left at its present level in a period of recession, stating that certain rates in the market on short-term paper would reflect a slackening in the demand for credit and the desire of banks having additional reserves to acquire some sort of asset would be reflected in bidding up the prices of short-term securities. Therefore, at the appropriate time there would be something to be said for an adjustment in the discount rate to maintain the general principle of flexibility in the rate according to fluctuations in business conditions. Mr. Young added that certain banks which found themselves in a difficult position from the standpoint of liquidity for reasons such as those referred to by President Bryan might have to borrow on ineligible paper at a one-half per cent penalty. In the circumstances, there might be justification for moving the discount rate down so that such banks would not be too severely penalized for resorting to ineligible paper. He felt that use of the reserve requirement instrument, a powerful weapon in circumstances such as those under discussion, had some appeal, but from the long-range standpoint of the System it would be much better if the occasion could be used for shifting into some other system of reserve requirements.

Mr. Youngdahl stated, with regard to a reduction of reserve requirements, that he was impressed by the "one way" aspect of that type of operation. However, assuming that no large overhang of excess reserves would be created, he expressed himself as agreeable to some relaxation incident to moving into a more rational type of reserve requirement plan. In any event, he did not want to see reserve requirements relaxed to the point where monetary expansion would be possible on a seven or ten to one ratio, as it was at times in the past.

Following further discussion, Mr. Thomas referred to a modified system of reserve requirements which he previously had devised. In describing the plan, he said that it would represent a step toward uniform requirements for all banks while maintaining a modified classification of reserve city banks. It would provide for only two classes of banks (reserve city and "country") and, through allowing certain deductions from deposits for interbank balances in computing net deposits subject to reserve requirements, it would recognize the correspondent banking system as an integral part of the banking system. In this connection, Mr. Thomas distributed copies of a tabulation showing the effect of the proposed plan on total required reserves, as compared with present requirements, assuming various requirements which might be imposed under the new plan.

Chairman Martin then suggested that Mr. Thomas distribute copies of a memorandum outlining the suggested plan to the members of the Board with a view to further discussion at the meeting tomorrow.

Governor Robertson expressed the view that the Board should not advocate any change in the system of reserve requirements but that it should study the various alternatives and reach agreement on what it considered to be the best plan. Then, upon inquiry by banker groups, it might present the plan and attempt to stimulate interest in the plan as something which the bankers might want to urge in their own interests.

The meeting then adjourned. During the day the following additional actions were taken by the Board, with all of the members except Governor Szymczak present:

Minutes of actions taken by the Board of Governors of the Federal Reserve System on April 21, 1953, were approved unanimously.

Memorandum dated April 17, 1953, from Messrs. Thurston and Young, Assistant to the Board and Director of the Division of Research and Statistics, respectively, reading as follows:

> "The April Bulletin will include the revised consumer credit estimates and a general article describing briefly the concepts and methods of compilation. The revision of these data was prepared on the basis of recommendations, criticisms, and comments of a System research committee and selected outside consultants. A detailed description of the sources of information and estimating techniques was prepared as part of the work of the revision but is not included in the Bulletin. A large demand for this description is anticipated from professional and trade groups that will wish to become familiar with these details or have them available.

"A similar demand is expected for the technical description of the index of industrial production when this becomes available late this year.

"In view of the widespread continuing interest of many groups in these series, it is recommended that these detailed technical descriptions be printed as publications of the Board. If this recommendation is approved, it is planned for reprints to be run in the Board's duplicating section from copy set up by an outside printer. It is anticipated that 10,000 copies of the detailed description of the consumer credit estimates will be needed and that the cost of providing this number will be about $1,000. The cost of the industrial production reprint cannot be estimated until later in the year but would probably amount to somewhat more than this.

"As indicated in the text of the 1953 Budget of the Division of Research and Statistics, no specific allowance was made for these items."

Approved unanimously.

Secretary