

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Tuesday, June 23, 1953. The Board met in the Board Room at 2:30 p.m.

PRESENT: Mr. Martin, Chairman

Mr. Szymczak

Mr. Mills

Mr. Robertson

Mr. Carpenter, Secretary

Mr. Sherman, Assistant Secretary

Mr. Kenyon, Assistant Secretary

Mr. Thurston, Assistant to the Board

Mr. Riefler, Assistant to the Chairman

Mr. Thomas, Economic Adviser to the Board

Mr. Vest, General Counsel

Mr. Youngdahl, Assistant Director, Division of Research and Statistics

This meeting was called for the purpose of considering the action to be taken by the Board with respect to a reduction in reserve requirements of member banks.

At the meeting of the Federal Open Market Committee on June 11 the policy had been adopted of supplying reserves aggressively to the money market in the near future on a sharply rising basis with a view to avoiding deflationary tendencies in the economy without encouraging a renewal of inflationary developments. At the meeting of the executive committee of the Federal Open Market Committee this morning it appeared from available information that even with a reduction in excess reserves of member banks to \$500 million and an increase in member bank borrowing from the Federal Reserve Banks to \$500 million, additional Federal Reserve Bank credit in the

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amount of about \$850 million would have to be supplied to the market during the period ending July 8, without taking into account new Treasury financing. It also appeared that if the Treasury should go to the market for as much as \$6 billion of new funds, up to \$1.2 billion of additional reserves (depending on the extent to which the new securities were sold to banks) would be needed to prevent undue strain on the economy. Just before this meeting Messrs. Martin, Szymczak, Mills, and Robertson, along with Messrs. Sproul and Erickson, members of the executive committee of the Federal Open Market Committee, met with Mr. Burgess, Deputy to the Secretary of the Treasury, at which time the problems of new Treasury financing were outlined.

The question whether there should be a reduction in reserve requirements was discussed at this meeting in the light of the consensus that it would be unwise to permit the money market to tighten to an extent which might cause excess reserves to decline below about \$500 million and member bank borrowings from the Federal Reserve Banks to increase much about \$500 million. It appeared that the Treasury would go to the market for new funds in the very near future and that, therefore, it would be necessary to supply aggregate additional reserve funds in the neighborhood of \$2 billion if undue restraint on the economy were to be avoided. It was the consensus that it would not be desirable to undertake to supply these reserve funds through open market operations alone, and that a substantial part should be supplied through a reduction in reserve requirements. For this purpose the

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suggestion had been made that reserve requirements against demand deposits of member banks in central reserve cities be decreased by two percentage points and for all other member banks by one percentage point, the reduction for central reserve city and reserve city banks to become effective July 9, 1953, and the reduction for non-reserve city banks to become effective July 1, 1953.

Mr. Riefler said that Mr. Burgess had indicated that if the Board were to announce such a reduction in reserve requirements at the close of business tomorrow, the Treasury would be prepared to make an announcement that it intended to undertake new financing which would cover its requirements for the third quarter of the calendar year, that the Treasury announcement would give a rough indication of what those requirements were, and that during the first week of July the Treasury would announce the details of the issue and open its books on July 6 for subscriptions which would have to be taken up by July 13.

Governor Robertson said he would vote in favor of the proposed reduction in reserve requirements because of the present need for additional reserves, even though he felt it was not the best method of achieving the desired end. He would prefer that reserve requirements not be reduced at this time because of the semi-permanent nature of the action when viewed in the light of the practical difficulties of increasing them at a later date. However, he did not believe that the existing differential in reserve requirements for central reserve and reserve cities was wholly justified under present conditions, and in view of the large amount of reserves that would have to be supplied to the market in the near future,

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he felt it would be appropriate to make a 2 per cent reduction in reserve requirements of central reserve city banks (thus providing approximately \$500 million of reserves) and to provide the additionally needed reserves by making increased use of open market operations and the discount window. Since, in his opinion, the important point was the early provision of a large amount of reserves and the exact method to be used was a matter of judgment, the accuracy of which could only be tested by hindsight, he would vote in favor of the method outlined above which the other Board members deemed the most appropriate in the circumstances.

At this point Messrs. Leonard, Director, and Horbett, Assistant Director, Division of Bank Operations, were called into the meeting.

Following a statement as to the reduction in reserve requirements which had been proposed, Messrs. Leonard and Horbett indicated that the timing would be satisfactory from a technical standpoint.

Messrs. Leonard and Horbett then withdrew from the meeting, and there ensued a discussion of what public announcement might be made of the reduction in reserve requirements. Several suggestions regarding the text of a press statement were made and Mr. Thurston was requested to prepare a draft in the light of these comments for consideration at the meeting tomorrow.

At this point Governor Vardaman joined the meeting.

Following a review of the action with respect to reserve requirements that had been under discussion, Governor Vardaman stated that he would join the majority of the Board in voting for such action, but that he would like the record to show that he would have strongly preferred a reduction of one percentage point in the reserve requirements of all member banks against both

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demand and savings deposits since he felt that the country sectors of the economy would have derived some needed benefit from such an adjustment of reserve requirements. In addition, he felt that the existing differential in reserve requirements between central reserve city and other member banks should be maintained and that if the Board believed that the differential was not justified, it should present to the Congress a recommendation for a change in the Federal Reserve Act. Governor Vardaman also said that in the past, when inflationary factors were dominant in the economy, he had advocated that reserve requirements of central reserve city banks be increased to the maximum provided by law, and he expressed the view that to decrease the requirements of central reserve city banks more than those of other member banks constituted "legislation by bureaucratic edict".

Reference was made to the position taken by Governor Evans at the meeting on June 16, 1953, in favor of a reduction in reserve requirements of all member banks, and Chairman Martin stated that he would call Governor Evans by telephone and advise him of the action of the Board as taken at this meeting.

Thereupon, the Board voted unanimously in favor of the proposed reduction in reserve requirements. To carry this action into effect, unanimous approval was given to an amended supplement to Regulation D, Reserves of Member Banks, reading as follows:

SUPPLEMENT TO REGULATION D

"ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
"Effective as to member banks not in reserve and central reserve cities at opening of business on July 1, 1953, and as to member banks in reserve and central reserve cities at opening of business on July 9, 1953

RESERVES REQUIRED TO BE
MAINTAINED BY MEMBER BANKS
WITH FEDERAL RESERVE BANKS

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"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 prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

6 per cent of its time deposits plus --

13 per cent of its net demand deposits if not in a reserve or central reserve city;

19 per cent of its net demand deposits if in a reserve city, except as to any bank located in an outlying district of a reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain 13 per cent reserves against its net demand deposits;

22 per cent of its net demand deposits if in a central reserve city, except as to any bank located in an outlying district of a central reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System is permitted to maintain 13 per cent or 19 per cent reserves against its net demand deposits."

The above action was taken with the understanding that a telegram would be sent to the Presidents of all Federal Reserve Banks tomorrow afternoon advising of the reduction of reserve requirements; quoting the amended supplement to Regulation D and the statement to be released to the press at the close of business tomorrow for publication in the morning papers of June 25, 1953; and requesting that the supplement to Regulation D be printed and copies furnished to member banks and that each Federal Reserve Bank President advise the State bank supervisors of the States with capitols located in his district of the Board's action.

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Unanimous approval also was given to a statement for publication in the Federal Register reading as follows:

"2. This amendment is issued pursuant to the authority granted to the Board of Governors by section 19 of the Federal Reserve Act with primary regard to the general credit and business situation. The notice and public procedure described in sections 4(a) and 4(b) of the Administrative Procedure Act, and the prior publication described in section 4(c) of such act, are impracticable, unnecessary and contrary to the public interest in connection with this amendment reducing reserve balances of member banks of the Federal Reserve System for the reasons and good cause found as stated in paragraph (e) of § 262.2 of the Board's Rules of Procedure (Part 262), and especially because such notice, procedure and prior publication would prevent the action from becoming effective as promptly as necessary, and would serve no useful purpose."

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

Minutes of actions taken by the Board of Governors of the Federal Reserve System on June 22, 1953, were approved unanimously.

Letter to Mr. Mangels, First Vice President, Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in your letter of June 16, 1953, the Board approves the appointment of Mr. Henry B. Jamison as an assistant examiner for the Federal Reserve Bank of San Francisco.

"It is noted that Mr. Jamison is presently indebted to the Bank of America N. T. & S. A. in the amount of \$300 representing the balance on an automobile loan but that he is making arrangements to liquidate this indebtedness prior to the effective date of his appointment."

Approved unanimously.

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Letter to Mr. Mangels, First Vice President, Federal Reserve Bank of San Francisco, reading as follows:

"In accordance with the request contained in your letter of June 16, 1953, the Board approves the appointment of Mr. Roy A. Karlsson as an assistant examiner for the Federal Reserve Bank of San Francisco."

Approved unanimously.

Letter to The National Bank of Tuxedo, Tuxedo, New York, reading as follows:

"The Board of Governors of the Federal Reserve System has given consideration to your application for fiduciary powers and grants you authority to act, when not in contravention of State or local law, as trustee, registrar of bonds, or in any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State of New York, subject to the limitation that these powers shall be exercised only with respect to bond issues of the Town of Tuxedo and the Incorporated Village of Tuxedo Park, New York. The exercise of such authority shall be subject to the provisions of the Federal Reserve Act and the regulations of the Board of Governors of the Federal Reserve System.

"This letter will be your authority to exercise the fiduciary powers granted by the Board pending preparation of a formal certificate covering such authorization, which will be forwarded to you in due course."

Approved unanimously, for transmittal through the Federal Reserve Bank of New York, together with a letter to Mr. Wiltse, Vice President of the Reserve Bank, reading as follows:

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"This refers to our letter of June 2, 1953, in which you were advised of the approval of the application of The National Bank of Tuxedo, Tuxedo, New York, for specific fiduciary powers and of the fact that the requested authority to act as fiscal agent was not included among the fiduciary powers so granted to the applicant.

"It is now understood that by reason of not receiving authority to act as fiscal agent questions may arise concerning the right of The National Bank of Tuxedo to accept and administer fiscal agency appointments of the kind contemplated and may provide basis for alleging ultra vires actions. In this connection, it has been suggested that the national bank be granted the ninth or general trust power limited in its applicability, however, to the special purposes for which it is required.

"The Board has considered this suggestion and, in lieu of the authority previously granted, now grants The National Bank of Tuxedo authority to exercise fiduciary powers as evidenced by the enclosed letter which you are requested to forward to the applicant. Please return to us the letters of June 2 relating to the initial action of the Board on this application."

Letter to Mr. Stephenson, Chief Examiner, Federal Reserve Bank of Atlanta, reading as follows:

"This refers to your letter of June 3, 1953, enclosing a copy of a letter received from the Savannah Bank & Trust Company, Savannah, Georgia, under date of June 1, 1953, regarding the mysterious disappearance of \$6,000 in currency.

"In the Board's opinion, the particular circumstances of this case as described in the member bank's letter indicate that a violation of the banking laws constituting a felony may have occurred; and the Board believes it advisable, therefore, that the question of reporting the disappearance of currency to the United States Attorney be reconsidered by your Bank in consultation with counsel. The Board will appreciate being advised as to your action in this matter and as to any new facts which may possibly have come to your attention."

Approved unanimously.

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Letter to the Board of Directors, The Detroit Bank, Detroit, Michigan, reading as follows:

"Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors approves the establishment and operation of a branch in Northland Village, Southfield Township, Oakland County, Michigan, by The Detroit Bank, provided (a) formal approval is issued by the appropriate State authorities, (b) the branch is established within one year from the date of this letter, and with the understanding that the branch at Eight Mile Road, West, near Greenfield Avenue within the city limits of Detroit, approved by the Board on September 23, 1952, will not be established, since the branch in Northland Village will serve substantially the same area."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of Chicago.

Letter to Becton, Dickinson and Company, Rutherford, New Jersey, reading as follows:

"This refers to the request submitted on your behalf by the firm of Kipp, Ashen & Somerville for a determination by the Board of Governors of the Federal Reserve System as to the status of Becton, Dickinson and Company as a holding company affiliate.

"From the information supplied, the Board understands that the business of Becton, Dickinson and Company at all times is and has been the manufacture and sale of medical and surgical instruments; that the Company is a holding company affiliate of The Rutherford National Bank, Rutherford, New Jersey, by reason of the fact that it owns more than 50 per cent of the number of shares voted at the latest election of directors of such bank; that the Company also owns 161 of the 10,000 outstanding shares of common stock of the Rutherford Trust Company but does not and did not on January 13, 1953, and May 14, 1953, the dates of the last meetings of stockholders, own or control, directly or indirectly, any other bank stock; and that

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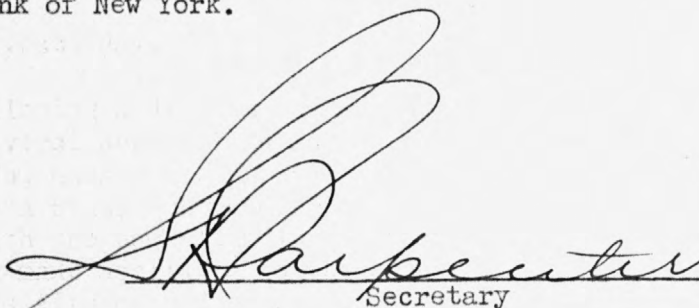
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"the Company does not and did not on such dates manage or control, directly or indirectly, any banking institution other than The Rutherford National Bank.

"In view of these facts, the Board has determined that Becton, Dickinson and Company is not engaged, directly or indirectly, as a business, in holding the stock of, or managing or controlling, banks, banking associations, savings banks, or trust companies, within the meaning of Section 2(c) of the Banking Act of 1933, as amended, and, accordingly, Becton, Dickinson and Company is not deemed to be a holding company affiliate except for the purposes of section 23A of the Federal Reserve Act, and does not need a voting permit from the Board of Governors in order to vote the bank stock which it owns.

"If, however, the facts should at any time differ from those set out above to an extent which would indicate that Becton, Dickinson and Company might be deemed to be so engaged, this matter should again be submitted to the Board. The Board reserves the right to rescind this determination and make a further determination of this matter at any time on the basis of the then existing facts."

Approved unanimously, for
transmittal through the Federal
Reserve Bank of New York.



Secretary