

Minutes of actions taken by the Board of Governors of the Federal Reserve System on Wednesday, March 17, 1954. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Szymczak
Mr. Vardaman
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. Young, Director, Division of Research and Statistics
Mr. Hexter, Assistant General Counsel
Mr. Molony, Special Assistant to the Board

Reference was made to a memorandum from Mr. Young dated March 16, 1954, submitting a report of selected preliminary findings from the 1954 Survey of Consumer Finances. The memorandum, copies of which had been sent to the members of the Board, stated that a press release along the lines of the attached report was planned on Thursday of this week, for release in Friday morning papers, and that it was also planned to include the report in the March issue of the Federal Reserve Bulletin.

No objection was interposed to release of the report, it being understood that prior to release, the report would be given a final staff check.

Mr. Molony then withdrew from the meeting.

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Mr. Joseph E. Healy, President of The Citizens National Bank of Hampton, Virginia, had discussed with Governor Robertson whether the Board would favor an amendment to the law to eliminate the existing provisions authorizing shareholders in national banks to use cumulative voting in elections of directors. Governor Robertson had advised Mr. Healy that he would discuss the matter with the Board, and at Governor Robertson's request Mr. Vest had prepared a memorandum on the subject under date of March 16, 1954. Copies of Mr. Vest's memorandum were sent to the members of the Board prior to this meeting.

Governor Robertson stated that he would like to inform Mr. Healy that the Board had considered the matter, that theoretically the principle of cumulative voting seemed to have merit, that there might be disadvantages, however, which the Board had not had occasion to observe because only national banks were involved, and that in all the circumstances the Board would prefer not to express any views in the absence of an inquiry into the subject by a Congressional committee.

Following a discussion, Governor Robertson was authorized to handle the matter along the lines which he had suggested.

At this point Mr. Hexter withdrew from the meeting and Messrs. Leonard, Director, Division of Bank Operations, Solomon, Assistant General Counsel, and Horbett, Assistant Director, Division of Bank Operations, entered the room.

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There had been sent to the members of the Board, with a covering memorandum from the Secretary dated March 15, 1954, copies of (1) a memorandum dated March 9 from Mr. Riefler suggesting certain actions with respect to member bank reserve requirements, and (2) a memorandum dated March 12 from Mr. Thomas discussing the conclusions which were reached at a meeting of Board staff members on March 11 with a committee of Federal Reserve Bank staff members appointed to advise the Board with respect to possible legislation on member bank reserve requirements.

At the request of the Board, Mr. Thomas discussed in more detail the conclusions of the committee as set forth in his memorandum and, in this connection, distributed copies of two statements prepared in the Division of Bank Operations under date of March 16, the first of which showed the ratio of cash assets, less required reserves on time deposits, to gross demand deposits of member banks, by classes and selected periods. The second tabulation showed, as of June 30, 1953, the ratio of cash assets, less required reserves on time deposits, to gross demand deposits of member banks, by classes, and of insured non-member banks.

Mr. Thomas stated that in the opinion of the committee some reduction of reserve requirements might be justifiable in the present economic and credit situation, which offered an opportunity for action

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to change the existing structure of reserve requirements without significantly reducing requirements for any individual banks. Therefore, the committee agreed that legislation should be sought which would authorize the counting of vault cash as reserves; and, if it was felt that such a further request would not endanger the obtaining of legislation on vault cash, that authority be sought which would empower the Board to reclassify individual banks in central reserve and reserve cities, according to certain stated criteria, without regard to whether the banks were located in outlying districts. If such legislation was obtained, the committee felt that there should be a reduction of reserve requirements and a revision of the classification of some banks, while maintaining a differential between reserve city and country banks. It was suggested that reserves released through the lowering of requirements might be offset by sales of short-term securities from the portfolio of the Federal Reserve Banks so that the result would be an increase in the liquidity position of banks without the creation of a large amount of excess reserves.

Mr. Thomas said that on the basis of statistics that were presented, the committee questioned whether the differentials provided in the existing system of reserve requirements were as inequitable or irrational as sometimes suggested, in view of the fact that the country's system of unit banks and correspondent banking makes it necessary for

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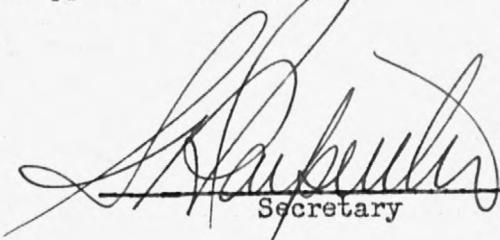
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some banks to hold balances with other banks. However, further study was believed necessary to determine whether appropriate differentials should be based on location, type of deposits, or some other criteria, and the committee felt that there should be a comprehensive study of the basis for reserve requirements and of possible changes in the structure and level of requirements.

There was a general discussion based on the comments of Mr. Thomas during which it was suggested that the passage of legislation authorizing the counting of vault cash as reserves might militate against the chance of securing at a later date legislation which would make more fundamental changes in the present system of reserve requirements. Question was also raised as to whether it would be practicable or advisable to request legislation at this time. No conclusions were reached, and it was understood that the Board would give further attention to the matter following receipt of the formal report being prepared by the staff committee.

The meeting then adjourned. During the day the following additional action was 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 March 16, 1954, were approved unanimously.


Secretary