Minutes of actions taken by the Board of Governors of the Federal Reserve System on Monday, June 21, 1954. The Board met in the Board Room at 10:20 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. Leonard, Director, Division of Bank Operations
Mr. Young, Director, Division of Research and Statistics
Mr. Solomon, Assistant General Counsel
Mr. Youngdahl, Assistant Director, Division of Research and Statistics
Mr. Molony, Special Assistant to the Board

At recent meetings the Board had given consideration to a change in member bank reserve requirements and the matter was on the agenda for further consideration at this time pursuant to the understanding at the meeting on June 15, 1954.

As a starting point for the discussion, reference was made to the staff memorandum of June 10, 1954, entitled "Some Patterns of Action on Reserve Requirements" which had been reviewed at the meeting of the Board on June 11, and Messrs. Thomas and Youngdahl presented revised weekly estimates of free reserves for the next several months based on the assumption that no action would be taken by the Federal

Reserve System during that period which would add to or reduce the volume of reserve funds and on the further assumption that Treasury financing in the latter part of July would be in the magnitude of 4 billion rather than 5 billion dollars as had been anticipated when the June 10 memorandum was prepared. Proceeding from these basic estimates, they then presented the changes which would result from a reduction in reserve requirements according to alternative plans, with and without counteracting System open market operations. Mr. Thomas also referred to reasons why it was difficult to make reliable estimates of free reserves. He felt, however, that about 1-1/2 billion dollars of additional Federal Reserve credit would have to be supplied in some way over the remainder of 1954 in order to provide for seasonal credit demands, Treasury financing, and a normal growth trend in the economy, and still have free reserves run at a level of about 500 to 600 million dollars.

Following a discussion based on the estimates of free reserves with and without System action of various kinds, Chairman Martin stated that the discussion demonstrated to him that, although it was advisable to look at these estimates in deciding what approach to the problem of appropriate Federal Reserve action should be taken, it was not possible to make such estimates sufficiently accurate to use them as more than a general guide. However, he thought that the need for the Federal Reserve to supply additional reserves in the amount of approximately 1-1/2 billion dollars over the rest of the year 1954 was quite clear. Therefore, he felt that the principal question was whether it would be preferable to act now to reduce member bank reserve requirements to an extent which would provide additional reserves of about that amount, with subsequent open market operations designed to keep free reserves at an appropriate level (which he thought should be in the vicinity of 500 to 600 million dollars) or to reduce reserve requirements to a lesser extent at the present time, supply additional reserves thereafter through open market operations, and then, if necessary, again reduce reserve requirements later in the year. Chairman Martin said that he favored the first of these alternatives and that, although he did not know what the psychological and market reactions would be to an announcement of such action by the Board, he felt that making adjustments in the direction of draining excess reserves from the economy through the more flexible instrument of open market operations would be preferable to a second reduction of reserve requirements, prior to which reserves might have to be supplemented through open market operations. He also pointed out that the question of the Board taking action on reserve requirements had been the subject of public discussion for some time, and it was his thought that it would be desirable to act in such a way as to dispose of this issue at least for the remainder of the year.

Of the alternative plans for reserve requirement action that had been suggested in the staff memorandum of June 10, Chairman Martin, for the reasons that he had stated, favored the plan under which the requirements would be reduced on a gradual basis over the next six weeks, with the result that when the program was completed there would be effected a reduction of two percentage points in the requirements on demand deposits for central reserve city banks and one percentage point for reserve city and country banks, and a reduction of one percentage point in requirements on time deposits for all member banks. He also favored an immediate announcement by the Board of the whole program, but with no express commitment regarding the nature of related open market operations except for a statement to the effect that changes in reserve requirements are comparatively infrequent and that for more flexible and frequent adjustments to the credit needs of the economy the System relies chiefly upon open market operations to release or absorb reserve funds. If the Board should decide to adopt the course of action that he favored, Chairman Martin suggested that the Presidents of the Federal Reserve Banks currently attending the meeting of the Presidents' Conference be notified today and that the Board's public announcement be released this afternoon after the Presidents had been informed.

Governor Vardaman stated that he was very much in favor of the action suggested by Chairman Martin. His position was that he would like to make reserves freely available, particularly to the smaller banks, during the coming months. He felt that announcement of such action by the Board would have an important psychological effect in encouraging a revival of business and that the month of August, particularly, would be a crucial period in determining whether such a revival was to occur.

Governors Szymczak and Mills likewise indicated that their thinking was along the lines expressed by Chairman Martin, although Governor Mills was of the view that the level of free reserves should be held, if possible, at around 700 to 800 million dollars rather than in a range of 500 to 600 million dollars.

Governor Robertson stated that although his views regarding the most appropriate action on reserve requirements differed from those of the majority of the Board, he saw no reason, in the circumstances, for deferring action. After Governor Robertson had outlined the reasons underlying his position, it was understood that he would furnish a statement of his views which would be incorporated in the minutes of this meeting.

Secretary's note: The statement subsequently submitted by Governor Robertson in accordance with this understanding was as follows:

The reduction of reserve requirements agreed upon by the Board at this meeting will provide over the next six weeks additional reserves in the neighborhood of $1,500,000,000. It is estimated that more than five-sixths of this (or approximately

$1,300,000,000) will have to be offset by open market operations in order to avoid flooding the market with reserves for some months. This offsetting operation presumably will not take place all at once, and therefore, despite the absorption, there will be periods when the volume of free reserves will be very high - higher than is essential to meet the credit needs and contribute toward the maintenance of stability. Consequently, the Board action may stimulate inflationary pressures and speculative activities.

My judgment with respect to the lowering of reserve requirements differs from that expressed by other members of the Board. I agree with respect to the need for providing a substantial amount of additional reserves during the remainder of the year, and under my proposal the same amount would ultimately be provided if the prognostications prove correct. However, I disagree with the view that the reserve-requirement instrument is one which cannot be geared to short-term needs but must be used very infrequently and in large amounts. It is an instrument which can be and has been used more flexibly than in the recent past without creating serious problems, actual or psychological, although, of course, not as flexibly as open market operations, or even discount rates.

My judgment is that a better procedure than the one adopted would be to reduce reserve requirements on time deposits by 1% effective June 16 and June 24, and reduce reserve requirements on demand deposits by 1/2% effective July 29 and August 1, in order to take care of the additional drains occasioned by Treasury and seasonal financing requirements which can now be foreseen. If the economy needs more reserves in the fall of the year, reserve requirements on all demand deposits could then be reduced by an additional 1/2%, plus, perhaps, an additional 1% on demand deposits in Central Reserve City banks, or a further reduction in reserve requirements on time deposits. To me, it seems unnecessary - and therefore unwise - to look six months into the future in determining the basis for present actions.

Each of the reductions which I advocate would stand by itself rather than being one step in a "package" plan, and would represent a flexible use of the reserve requirement instrument. This would avoid moving in two directions at the same time: providing reserves through one instrument and simultaneously absorbing reserves with another instrument. It would also avoid furnishing material on which could be based rumors or allegations that the Federal Reserve was interested not in maintaining active ease, but in maintaining <u>super</u> active ease, and that we were endeavoring to increase the earnings of commercial banks by transferring

Government securities from the Federal Reserve Banks' portfolios to the portfolios of commercial banks by the mere stroke of a pen.

I am impressed by the views of those members of the Board who contend that it is better to get the question of reserve requirements behind us in one action and then operate firmly with open market operations to maintain the degree of ease or tightness which is most appropriate to the prevailing conditions. Despite the merits of this view, however, on balance it is my judgment that the program of taking each necessary step, if and when called for, would be the wiser course.

The members of the staff present were then requested to express their views and each of them indicated general agreement with the action favored by the majority of the Board. It was suggested, however, that the Board might wish to consider further, at a later date, the question of the relationship between reserve requirements of central reserve city, reserve city, and other banks and also the question of what requirement should be fixed against time deposits under normal circumstances. Chairman Martin then suggested that the Board proceed actively with its study of the whole question of the present system of reserve requirements, and it was understood that this would be done.

Thereupon, with Governor Robertson voting "no" for the reasons which he had stated, 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
ON JUNE 21, 1954
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 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:

1. If not in a reserve or central reserve city --
   (a) 6 per cent of its time deposits until the opening of business on June 16, 1954, and 5 per cent of its time deposits thereafter, plus
   (b) 13 per cent of its net demand deposits until the opening of business on August 1, 1954, and 12 per cent of its net demand deposits thereafter.
2. 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 the reserves specified in paragraph 1 above) --
   (a) 6 per cent of its time deposits until the opening of business on June 24, 1954, and 5 per cent of its time deposits thereafter, plus
   (b) 19 per cent of its net demand deposits until the opening of business on July 29, 1954, and 18 per cent of its net demand deposits thereafter.
3. 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 the reserves specified in paragraph 1 or 2 above) --
   (a) 6 per cent of its time deposits until the opening of business on June 24, 1954, and 5 per cent of its time deposits thereafter, plus
   (b) 22 per cent of its net demand deposits until the opening of business on June 24, 1954, 21 per cent of its net demand deposits from June 24 to July 28, 1954, inclusive, and 20 per cent of its net demand deposits thereafter.

Approval was also given to a statement for the press in the following form, with the understanding that it would be handed to the press today at 4:00 p.m., Eastern Daylight Saving Time, for immediate release:

The Board of Governors has reduced the reserves required to be maintained by member banks of the Federal Reserve System. The reduction will become effective on a gradual basis over the next six weeks.

The action will release from reserves more than $1.5 billion, which will then be available to the 6,700 member banks for expanding loans and investments as the economy enters a season of rising credit needs.

Each member bank is required to maintain in the Reserve Bank of its district an amount of reserve funds equal to a specified percentage of the demand deposits (checking accounts) and time deposits (savings accounts) outstanding on the member bank's books.

When the reductions have been completed on August 1, the percentages applicable will have been lowered as follows:

On net demand deposits--for central reserve city banks, from 22 to 20 per cent; for reserve city banks, from 19 to 18 per cent; for country banks, from 13 to 12 per cent. The amount of reserves that will be released is estimated at $1,180,000,000.

On time deposits--for all member banks, from 6 to 5 per cent. The amount of reserves to be released is estimated at $375,000,000.

The reductions will become effective according to the following schedule:

On net demand deposits--

Effective	For	Percentage
June 24	Central Reserve City Banks	From 22 to 21 per cent
July 29	Central Reserve City Banks	From 21 to 20 per cent
July 29	Reserve City Banks	From 19 to 18 per cent
August 1	Country Banks	From 13 to 12 per cent

On time deposits--

Effective	For	Percentage
June 16*	Country Banks	From 6 to 5 per cent
June 24	Central Reserve and Reserve City Banks	From 6 to 5 per cent

* Retroactive, so as to apply to the average balance in each country bank's account with its Reserve Bank for the period June 16 through June 30.

This action was taken in conformity with the Federal Reserve System's policy of making available the reserve funds required for the essential needs of the economy and of facilitating economic growth. The reduction will release a total of approximately $1,555,000,000 of reserves. It was made in anticipation of estimated demands on bank reserves during the summer and fall, taking account of probable private financing requirements, including the marketing of crops and replenishment of retail stocks in advance of the Fall and Christmas sale seasons, as well as the Treasury's financing needs.

The Board is authorized by law to fix reserve requirements within the following limits: on net demand deposits, for central reserve city banks, 13 to 26 per cent; for reserve city banks, 10 to 20 per cent; for country banks, 7 to 14 per cent; on time deposits, for all member banks, 3 to 6 per cent.

The last previous reduction in reserve requirements was announced on June 24, 1953. Changes in reserve requirements supply or withdraw relatively large amounts of bank reserves, even when effected on a gradual basis, as in the present action. Accordingly, such changes are comparatively infrequent. For more flexible and frequent adjustments to the credit needs of the economy the System relies chiefly upon open market operations to release or absorb reserve funds.

In accordance with Chairman Martin's suggestion, it was also agreed that the Presidents of the Federal Reserve Banks now attending the meeting of the Presidents' Conference in Washington should be advised of the reduction in reserve requirements before issuance of the press statement. In this connection, approval also was given to a telegram to all of the Federal Reserve Banks advising of the action on reserve requirements, quoting the press statement, and requesting that the amended Supplement to Regulation D be printed and furnished to all member banks in the respective districts and that State bank supervisors be advised of the Board's action, with the request that they treat the matter as confidential until the time of release of the Board's announcement.

In connection with the foregoing action on reserve requirements, unanimous approval was also given to a statement for transmittal to 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 required reserves 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 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 June 18, 1954, were approved unanimously.

Secretary