

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is proposed to place in the record of policy actions required to be kept under the provisions of Section 10 of the Federal Reserve Act an entry covering the item in this set of minutes commencing on the page and dealing with the subject referred to below:

Page 17: Reduction in member bank reserve requirements.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

	A	B
Chm. Martin	x <u>(M)</u>	_____
Gov. Szymczak	x <u>Szymczak</u>	_____
Gov. Vardaman	x <u>(V)</u>	_____
Gov. Mills	x <u>(M)</u>	_____
Gov. Robertson	x <u>R</u>	_____
Gov. Balderston	x <u>CCRB</u>	_____
Gov. Shepardson	x <u>(S)</u>	_____

Minutes of the Board of Governors of the Federal Reserve System  
on Tuesday, March 18, 1958. The Board met in the Board Room at 10:00 a.m.

PRESENT: Mr. Martin, Chairman  
Mr. Balderston, Vice Chairman  
Mr. Szymczak 1/  
Mr. Vardaman  
Mr. Mills  
Mr. Robertson  
Mr. Shepardson

Mr. Carpenter, Secretary  
Mr. Kenyon, Assistant Secretary  
Mr. Riefler, Assistant to the Chairman  
Mr. Thomas, Economic Adviser to the Board  
Mr. Young, Director, Division of Research and  
Statistics  
Mr. Hackley, General Counsel  
Mr. Masters, Director, Division of Examinations  
Mr. Molony, Special Assistant to the Board  
Mr. Shay, Legislative Counsel  
Mr. Conkling, Assistant Director, Division of  
Bank Operations  
Mr. Dembitz, Research Associate, Division of  
Research and Statistics  
Mr. Solomon, Assistant General Counsel

Reserve requirements. Pursuant to the understanding at the meeting on March 10, 1958, that possible reserve requirement legislation would be considered further when all of the members of the Board were available, there was additional discussion of the subject at this time. The basis for discussion was the draft of reserve requirements bill distributed with Mr. Hackley's memorandum of March 7, except that consideration of the draft by the Board had resulted in tentative agreement to eliminate the suggested indication of intent from the title of the bill. (At this meeting Governors Vardaman and Robertson

---

1/ Attended morning session only.

3/18/58

-2-

expressed agreement with elimination of the indication of intent from the title.) The bill as it now stood would amend section 19 of the Federal Reserve Act so as (a) to authorize the Board, under such regulations as it might prescribe, to permit member banks to count all or part of their currency and coin as required reserves, and (b) to state that a member bank in a reserve city might hold the reserves specified for a country bank, and that a member bank in a central reserve city might hold the reserves specified for a reserve city or for a country bank, if such permission was granted by the Board, either in individual cases or under regulation of the Board, on such basis as the Board might deem reasonable and appropriate in view of the character of business transacted by the member bank. The bill would also amend section 19 of the Act so as to set a minimum limit of 10 per cent, rather than 13 per cent, for reserve requirements of central reserve city banks, thus making the maximum limit 20 per cent, with the result that the minimum and maximum limitations for both central reserve and reserve city banks would be the same.

In preliminary comments, Chairman Martin expressed the view that the Board should endeavor to reach a decision on the matter of reserve requirement legislation this week if possible and that the Committee on Legal Reserve Requirements of the American Bankers Association, which last met with the Board on March 6, was entitled to some response within the next few days. He did not feel that it would be

3/18/58

-3-

possible to arrive at a legislative proposal that would meet everyone's wishes fully but he hoped that it would be possible to come to a reasonably satisfactory solution.

There followed some discussion of appropriate amendatory language to the Federal Reserve Act if it should be decided, as an alternative to the approach in the draft bill, to submit a legislative proposal which would provide for the elimination of central reserve cities or give the Board authority to eliminate central reserve cities. In presenting the language by which this could be accomplished, Mr. Hackley brought out that there might be some advantages in retaining the central reserve city classification to permit differentials between the actual reserve requirements for central reserve and reserve city banks in the Board's discretion even though the same ranges would be prescribed by law for both classes of banks. However, if the Board should come to the conclusion that it wished to terminate the central reserve city classification, he felt that it might be better to have provisions in the law clearly authorizing the elimination of such classification. This followed the line of reasoning that, even though the Board at present might have the legal right to take this step, the inclusion of specific provisions in the law would make it clear that there was no longer a Congressional intent that three classifications of cities for reserve purposes be maintained.

During the discussion of this point Chairman Martin asked Governor Vardaman what advantages he saw in retaining more than two

3/18/58

-4-

classifications of cities for reserve purposes, to which the latter replied that he thought this would afford more protection and more adequate control over bank reserves. The Chairman then said that this was a point where he disagreed, for he did not think that reserve requirements were fundamentally for that purpose. Instead, he felt that the real basis of required reserves was their function as a fulcrum for monetary policy. In his opinion, the larger the number of classifications the more difficult the operation tended to become. Basically, he agreed with the thesis of the American Bankers Association that the size of the System's open market portfolio was nothing about which to brag, and he would not want to have to justify building up a portfolio of Government securities.

Governor Robertson recalled that in the earlier stages of the discussion of reserve requirement legislation he was one of those who suggested having not only three classifications but more, since it seemed to him that monetary policy should hit harder at those banks having a greater impact on the economy. Two things about the current proposal seemed to him questionable, the first being that to establish exactly the same range of reserve requirements for both central reserve and reserve city banks would have the practical effect of contracting to two the number of classifications. Monetary policy, he felt, would be more effective with more than two groups of banks and if the central reserve cities were expanded to include the larger banking institutions

3/18/58

-5-

whose deposits have a velocity much greater than those of the smaller banks. As a second point, he mentioned the proposal to reduce to 10 per cent the minimum permissible reserve requirement for central reserve city banks. He would prefer to leave the minimum at 13 per cent so as definitely to have three groups of banks. This would still permit the Board to reduce actual reserve requirements, and he was in favor of that, but he doubted whether 20 per cent was a high enough maximum requirement for central reserve city banks in some situations. Actually, he saw no real reason for a maximum limitation; if there was none he would not object to dropping the minimum to 10 per cent, but at present he felt that the only purpose in doing that was to establish a 20 per cent maximum. Consequently, he felt that the Board should be careful in going before the Congress with a proposal about which some might say that the effect in essence was to reduce the number of classifications from three to two. For these reasons, he would counsel against going along with the suggestion to reduce the minimum for central reserve city banks from 13 to 10 per cent and also against suggesting legislation which would give the Board authority to eliminate the central reserve city classification, for the availability of such a provision in the law might make it almost incumbent upon the Board to do away with that classification. If the Board should conclude that two classifications were sufficient, then he would take the direct approach of asking for repeal of the central reserve city classification.

3/18/58

-6-

In a discussion based on Governor Robertson's comments, Chairman Martin said that he would accept a reduction to two classifications, if he were making the decision himself, in the interest of attempting to work out a compromise with the American Bankers Association and within the ranks of the Board. He expressed the view that the Board should go as far as it could to meet the proposal of the American Bankers Association, recognizing the differences in points of view among the members of the Board. He recalled the opposition expressed by the Federal Advisory Council and then by the representatives of the American Bankers Association to additional gradations of reserve requirements, which meant that any such proposal would have to "buck a heavy head of steam." Furthermore, he had come himself to question the advisability of additional gradations because it appeared to him that the administrative problems would be difficult. He was inclined to regard a 10-20 per cent range of reserve requirements as adequate from the standpoint of the national interest, and this would permit moving in a measure toward uniformity without perhaps coming to uniformity for a hundred years. In saying this, he realized that there were those who would say that they did not want any uniformity.

Governor Vardaman repeated the view he had expressed during earlier discussions of the subject that the simpler the recommendation the greater would be the chance of obtaining legislation. He suggested that any proposal calling for the abolition of the central reserve city

3/18/58

-7-

classification or for reducing the maximum reserve requirement prescribed for that classification might be regarded as handicapping the Government in the event of an emergency.

Chairman Martin indicated that he was not concerned too much about the emergency argument and pointed out that the Board had not raised the central reserve city requirements to the maximum at times in the past under emergency conditions. He again referred to the work done by the American Bankers Association and said that aside from the proposal for establishing a target date and the rate proposed for time and savings deposits he considered the Association's plan quite sound in its general premises. Under the revised suggestions, he pointed out, no target at all was proposed, although lower reserve requirements were recognized to be a necessary and desirable thing as a general proposition. He went on to say that one possibility would be simply to advise the American Bankers Association that the Board could not reach agreement and to let the Association go ahead on its own initiative. However, he felt that the Board should aim at agreement on a reasonable bill.

Governor Mills agreed with the Chairman, stating that in his opinion the draft bill now before the Board accomplished admirably the major purposes sought by the Board without impairing its authority to fix reserve requirements in accordance with economic dictates. It would also permit the Board to recognize the character of business of the banks involved, and this to him was a persuasive argument for retaining the three classifications. The only major point that the ABA group advocated



3/18/58

-8-

which was not to be found in the draft bill was the elimination of the central reserve city classification, and in that respect the preference expressed was not so strong as to argue against the draft bill. In view of the tenor of the discussion at the last meeting with the Committee on Legal Reserve Requirements, he felt that any substantial alteration of the present legislative proposal would oblige the Board to explain its reasoning to the group.

Governor Robertson then suggested as an alternative possibility amending the law in such a way as to reduce the minimum of the range for central reserve city banks from 13 to 10 per cent, reduce the minimum of the range for reserve city banks from 10 to 9 per cent, and remove the maximum limitations. He suggested that to maintain the same range of requirements for both central reserve and reserve city banks when the statute contemplated the maintenance of three classifications would tend to be confusing, that the Board must keep in mind the purposes of its legislative recommendation, that elimination of maximum limitations would admittedly force the member banks to have to rely on the good faith of the Board, but that every indication pointed to a generally downward trend in reserve requirements and that absence of maximum limitations would preserve for the people of the United States whatever advantages flowed from unlimited authority to move reserve requirements upward if the situation demanded.

Chairman Martin commented that such a proposal would represent a change in the Board's tentative thinking to an extent that it would

3/18/58

-9-

appear necessary to discuss the matter with the representatives of the American Bankers Association, following which Governor Shepardson referred to statements by ABA representatives at the last meeting with the Board to the effect that in the event of an emergency they did not think there would be much question about getting legislative authority from the Congress to raise reserve requirements to such extent as the situation might warrant.

Governor Robertson said that, assuming the point of view reported by Governor Shepardson was indicative of the point of view of the whole ABA group, he would still urge retaining the part of his suggestion under which the minimum of the range for reserve city banks would be reduced from 10 to 9 per cent so as to maintain a differential between the ranges for central reserve and reserve city banks.

Following discussion of this and other possible variations, Governor Mills urged again that the Board bear in mind that at its invitation the American Bankers Association had worked for about two years on a plan for revision of the structure of reserve requirements. Following study of the Association's proposal, the Board developed a counterproposal which was marked tentative but which he imagined many of those who attended the March 6 meeting might have regarded as quite final. In any event, a further change in the Board's position at this point might indicate such a state of indecision as to suggest to the banking community that the real purpose of the Federal Reserve was to maintain the status quo.

3/18/58

-10-

Governor Balderston reviewed phases of the discussions with the Federal Advisory Council and the Committee on Legal Reserve Requirements and stated that he had sympathy with the basic point made by Governor Mills. A suggestion for abolition of the maximum limitations would represent a departure from what he had understood to be the consensus of the last meeting with the Committee on Legal Reserve Requirements. In other words, it might be regarded as doing violence to the sense of the meeting. If such a proposal should be agreed upon, he felt that it would be incumbent upon the Board to advise the Committee and provide the opportunity for another meeting with the Board.

There followed a discussion of the views expressed at the meeting on March 6, from which it developed that although it was clear that no commitments were made at the meeting or any formal Board position expressed, the composite of the informal expressions by members of the Board could have created a general impression of favorable reaction to the compromise suggestions made by the Committee.

In this connection, Governors Szymczak and Vardaman pointed out that their own expressions at the joint meeting had been in terms of adhering to the views which they had previously expressed in the course of the Board's deliberations on the subject.

Governor Robertson then stated that since his alternative suggestions apparently did not find favor with the Board he wished to withdraw them and return to the position that the minimum of the range for central reserve city banks should be allowed to remain at 13 per cent.

3/18/58

-11-

Chairman Martin commented that the problem was twofold, since the Board must not lose sight of the effect of the vault cash proposal, under which the country banks would receive the greatest benefit. He then repeated his earlier statement that if he were acting on his own, he would support a reduction of the minimum of the range for central reserve city banks to 10 per cent within the present framework of the current legislative proposal. As reasons he cited the history of the proposal by the American Bankers Association, the general trend of reserves, and his conviction that a maximum of 26 per cent was too high. He then again suggested the need to resolve the problem in some way.

Governor Shepardson said it seemed to him that the Board must face up to certain things. The problem had been before it for a long time and had been approached from various angles. About two years ago the American Bankers Association approached the Board with a view to discussing a plan, the Board did nothing except to tell them to work on it, and the Association did so and then submitted a plan to the Board. For several months the Board gave no indication as to where it stood, but now the matter had developed to a point where the Board and the Committee on Legal Reserve Requirements appeared to be quite close to agreement. The current position of the Committee, incidentally, was quite different from the original position; after looking at the Board's tentative proposal, the Committee evidently had tried in good faith to come to a possible compromise, and it had gone much further than he had

3/18/58

-12-

anticipated. It was his view that the proposal to reduce the minimum of the range for central reserve city banks to 10 per cent was something that could be agreed to by the Board without sacrificing any practical advantage that the Board might want for a long time to come, and the Association had accepted the fact that it would take a long time to adjust down to the minimum. They were apprehensive about the 26 per cent maximum and had proposed through the compromise what in effect was a ceiling. It seemed to him, from the statements of the Board's economists and the Board's own discussions, that there was no serious objection. In view of the long period that had elapsed, he felt it incumbent upon the Board to come to a position. It now had something that appeared acceptable, and he thought there was more to be gained by moving ahead, even if there were minor differences of opinion, particularly when the Association had gone most of the distance toward what the Board had proposed.

Governor Szymczak then made a statement of his position substantially as follows:

I vote for the proposed bill on reserve requirements. However, I wish to state that I would have preferred for reasons that appear to me good and practical not to have a change in the minimum and maximum of central reserve city reserve requirements. In other words, I would prefer to have the present minimum and maximum stand for all three classes of member banks. This would entail only a slight change in the law; namely, an addition that would empower the Board to count vault cash, or any part thereof, as a required reserve and a change to empower the Board to make exceptions in member bank reserve requirements based on the character of its business. This would be easily obtained, in my opinion, from Congress, and the Board could then obtain experience under

3/18/58

-13-

this new law and prepare and adopt a regulation that it would distribute to all member banks. After that experience the Board would know what else, if anything, to ask Congress to do on reserve requirements.

Since I feel that legislation on this subject is long past due, I feel that the position of the Board should be unanimous as to the bill; therefore, I vote with the majority for all the amendments submitted in the new bill.

Governor Vardaman stated that he also would like to join the majority. However, going from 13 to 10 per cent on central reserve city banks while leaving the minimum of 10 per cent for reserve city banks seemed to him to involve sacrificing a very great principle. Therefore, he would have to vote against the proposal.

Chairman Martin said that in hearings on proposed legislation he would want to be in the position of suggesting that every member of the Board be called so that points of disagreement could be examined. He noted that this was a very difficult subject on which to say that one had found the answer and that any proposal would almost certainly meet with opposition in some quarters. Therefore, he went back to the main thesis that if the country was going to have the development that he thought it would have, there should be a move toward a lower level of reserve requirements. This again, of course, was a matter of judgment.

The discussion then proceeded to a vote on whether to go forward with a legislative recommendation in the form of the draft bill submitted with Mr. Hackley's memorandum of March 7, 1958, except that the indication of intent would be eliminated from the title of the bill.

3/18/58

-14-

Messrs. Martin, Balderston, Szymczak, Mills, and Shepardson voted "aye", Governor Szymczak with the understanding contained in his statement previously set forth at this meeting. Governor Robertson voted "no", stating that he took exactly the same position as Governor Szymczak but on another basis. He wanted legislation and favored wholeheartedly everything in the draft bill except the reduction from 13 to 10 per cent in the minimum of the range of reserve requirements applicable to central reserve city banks. He felt that the current ranges provided a better basis and that it would be confusing to have two categories of banks on the one hand and three classifications on the other. Governor Vardaman also voted "no" and said that the position stated by Governor Robertson was substantially his own position.

Accordingly, the majority of the Board avored going forward with steps looking toward submission of the legislative proposal. In this connection, Chairman Martin was authorized to discuss the proposal at such time and in such manner as he deemed appropriate with parties within the Government and with the Chairman of the Committee on Legal Reserve Requirements of the American Bankers Association, with the understanding that he would report to the Board any matters of significance that might develop in such discussions. It was understood that the staff would continue to work on a statement to be used in presenting the proposal to the Congress, that this statement would receive the Board's consideration, and that no public statement would be made by the Board until the proposal was submitted.

3/18/58

-15-

Chairman Martin then turned to the problem of present reserve requirements in the light of the forthcoming Treasury financing. He noted that the problem could be handled through open market operations but suggested that the Board might also want to think about the matter from the standpoint of a possible change in reserve requirements, especially if it should appear that financing in excess of \$3 billion was contemplated. If the financing was to be in terms of \$4-\$5 billion and if the System was pursuing an easy money policy, it should come to grips with the problem ahead of time. He noted that the usual meetings of the Treasury with representatives of the various parts of the financing industry were scheduled to begin on the 31st of March.

There was agreement that the Board should consider the problem and it was understood that Mr. Thomas would provide the Board as much information as possible concerning the Treasury financing.

During the foregoing discussion Messrs. Solomon and Conkling withdrew from the meeting and Mr. Daniels, Assistant Director, Division of Bank Operations, entered the room.

Survey of small business financing. Mr. Young reported that the staff of the Senate Banking and Currency Committee was eager to obtain as soon as possible those parts of the study of small business financing which were available since they were under pressure from their principals to develop their thinking in preparation for forthcoming hearings on small business legislation and it was important for them to have some sense and



3/18/58

-16-

feel of the study. He went on to say that there were now available 13 of the 16 papers that would be included in part one of the study and that it was the suggestion to furnish these papers in mimeographed form and then to send the remaining papers as they became available along with the other parts of the study which the schedule called for completing by the end of March. He thought that material probably should be made available on the same basis to the Treasury, the Small Business Administration, and the Council of Economic Advisers. Mr. Young also said that the Banking and Currency Committee staff had made a commitment to have the study published by the Government Printing Office under an arrangement which would permit the Board to obtain such copies as it desired through the Printing Office.

Unanimous agreement was expressed with the procedure suggested by Mr. Young, with the understanding that the papers would be available to the members of the Board in the same form and at the same time as they were furnished to the staff of the Banking and Currency Committee.

Surveys of consumer expectations. Mr. Young referred to the decision of the Board at the meeting yesterday to undertake surveys of consumer expectations through the Bureau of the Census on an experimental basis and said that subsequent to the meeting he had discussed the nature of the Board's decision by telephone with the Assistant Director for Statistical Standards of the Budget Bureau, who originally raised the question of such surveys with the Board. Mr. Young said that Mr. Bowman was gratified to know of the decision and appreciated the view of the Board that the project should be undertaken as an experiment and without

3/18/58

-17-

public disclosure until an indication of the value of the project was available. It appeared that the Bureau would agree to possible termination of the program after two surveys if the results were not proving out.

At the suggestion of Governor Vardaman, Mr. Young stated that there would be an appropriate exchange of letters with the Budget Bureau.

The members of the staff then withdrew and the Board went into executive session. At the conclusion of the executive session the meeting recessed and reconvened in the Board Room at 2:45 p.m. with all of the members of the Board except Governor Szymczak present along with Messrs. Riefler and Thomas of the staff. At 3:50 p.m. the Secretary was called into the room along with Messrs. Thurston and Molony.

Reserve requirements (Item No. 1). The Chairman stated that the Board had voted unanimously to reduce by 1/2 of 1 per cent reserves required to be maintained against demand deposits by member banks of the System, effective March 20, 1958, for central reserve and reserve city banks and April 1, 1958, for country banks, and to release to the press at 4:30 p.m. EST today a statement concerning the action in the form attached under Item No. 1. This contemplated that appropriate advice would be sent to all Federal Reserve Banks and branches by telegram, with the request that the Reserve Banks advise State bank supervisors in the respective districts of the Board's action and that they print the following approved amended Supplement to Regulation D, Reserves of Member Banks, and furnish copies to all member banks in the district:

3/18/58

-18-

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 April 1, 1958, and as to member banks in reserve and central reserve cities at opening of business on March 20, 1958.

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) 5 per cent of its time deposits, plus
  - (b) 11 per cent of its net demand deposits.
  
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) 5 per cent of its time deposits, plus
  - (b) 17 per cent of its net demand deposits.
  
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) 5 per cent of its time deposits, plus
  - (b) 19 per cent of its net demand deposits.

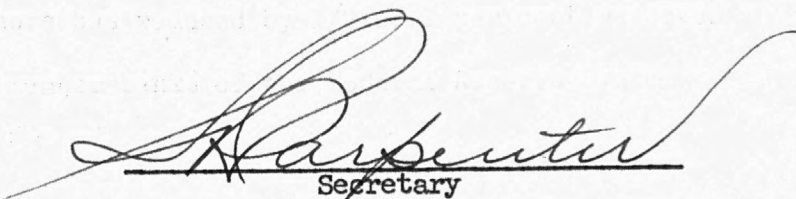
The foregoing action by the Board also contemplated that an appropriate notice would be published in the Federal Register.

The meeting then adjourned.

3/18/58

-19-

Secretary's Note: Governor Shepardson today approved on behalf of the Board a letter (attached Item No. 2) to the Chairman of the Presidents' Conference Committee on Fiscal Agency Operations advising that Messrs. Farrell and Hackley of the Board's staff would continue to serve as associate members of subcommittees of that committee.



R. Carpenter  
Secretary

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Item No. 1  
3/18/58

Statement for the Press

For immediate release

March 18, 1958.

The Board of Governors has reduced by  $1/2$  of 1 per cent reserves required to be maintained by member banks of the Federal Reserve System against demand deposits.

This action will release about \$490 million from present required reserves. For central reserve city banks the reduction from  $19-1/2$  per cent to 19 per cent of net demand deposits will release about \$125 million of reserves. At reserve city banks, the reduction from  $17-1/2$  per cent to 17 per cent will release about \$190 million, and at country banks the change from  $11-1/2$  per cent to 11 per cent will release approximately \$175 million.

For central reserve city and reserve city banks, the effective date for the new requirements is March 20, 1958, and for country banks, April 1, 1958.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

WASHINGTON 25, D. C.

Item No. 2  
3/18/58

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

March 18, 1958

Mr. Hugh Leach, Chairman,  
Committee on Fiscal Agency Operations,  
Conference of Presidents,  
Federal Reserve Bank of Richmond,  
Richmond 13, Virginia.

Dear Mr. Leach:

With reference to your letter of March 12, the Board will be glad for Mr. John R. Farrell to continue to serve as associate member of the Subcommittee on Fiscal Agency Operations, and for Mr. Howard H. Hackley to continue to serve as associate member of the Subcommittee of Counsel on Fiscal Agency Operations.

Very truly yours,

(Signed) S. R. Carpenter

S. R. Carpenter,  
Secretary.

