MISC. 3B#2—130M—2-51

Mr. Sproul

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Copy to Mr. Roelse

DATE September 26, 1952.

TO Messrs. Treiber and Rouse

SUBJECT

FROM Allan Sproul

At the meeting of the Federal Open Market Committee yesterday, there was some discussion as to whether member bank borrowings do not have a decreasing influence, as a measure of restraint, after they have passed some figure, such as \$1 billion or \$1½ billion. This seems to be on the theory that the banks then tend to become used to borrowing, and rather like it after they have become accustomed to it. I do not think this theory should be accepted without question.

1. There is the matter that Mr. Gidney mentioned at the meeting, namely, that the aggregate figures tend to conceal the fact that different banks may be borrowing from time to time, with some new borrowers coming in as old borrowers pay out. The recent survey made by the Board, dated September 12th, showed that only about 10% of all member banks borrowed in August, although 2/3rds of the central reserve city banks borrowed, and 1/2 of the reserve city banks. To spread out the restraining influence of member bank borrowing, a higher aggregate figure than we recently have had might be necessary.

Total above \$1x13, \$200 @NY largest since 1929

2. There is also the fact that member bank borrowing brings the borrowing bank under some degree of control by the Federal Reserve Banks. The banks do not like to be in the position of having us able to tell them that they must reduce or eliminate their borrowing from us, which forces them to make other adjustments in their portfolios. I think it will be quite a while before this feeling will subside, if it ever does, despite the profitability of borrowing at present rates.

AS/MR
(APP)