

REC'D IN FILES SECTION
AUG 17 1938

Meeting on April 15, 1938.

MEMBERS PRESENT: Mr. Eccles, Chairman
Mr. Ransom, Vice Chairman
Mr. Szymczak
Mr. McKee
Mr. Davis
Mr. Draper

*OK
CDP*

Reduction in Reserve Requirements of Member Banks.

It was voted unanimously at this meeting, for the purpose of reducing reserve requirements of member banks, to adopt, effective at the opening of business on April 16, 1938, a revised supplement to Regulation D, Reserves of Member Banks, requiring that each member bank maintain on deposit with the Federal reserve bank of its district reserve balances equal to 12 percent of its net demand deposits if the bank be not located in a reserve or central reserve city, 17 1/2 percent of its net demand deposits if the bank be located in a reserve city, and 22 3/4 percent of its net demand deposits if the bank be located in a central reserve city, plus 5 percent of its time deposits.

It was estimated that as a result of this reduction in reserve requirements excess reserves of member banks would increase by about \$750,000,000. This action had been agreed upon by the members of the Board as a part of the program announced by the President of the United States on April 14, 1938, for the encouragement of business recovery. Although there had been excess reserves in amounts considered ample to meet all probable needs of agriculture, commerce and business, the volume of business activity had declined with such rapidity as to produce injurious, deflationary effects upon commodity prices, the capital market, and industry generally. In these circumstances and in view of the other steps proposed to be taken in the Government's program for encouraging business recovery, the Board decided that a reduction in reserve require-

FOR FILES
R. K. Thompson

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ments of member banks might be helpful, as a part of a concerted effort by the Government to carry out the purposes of this program, by assuring the continued availability of ample funds for meeting business requirements and thereby preventing injurious credit contraction.

Mr. Banister, Vice Chairman
Mr. ...
Mr. Draper

Reduction in Reserve Requirements of Member Banks.

Prior to this meeting all of the members of the Board had agreed informally to take action, as a part of the program announced by the President of the United States on April 14, 1938, for encouragement of business recovery, to reduce reserve requirements of member banks by approximately \$750,000,000.

In order to carry out this agreement, it was voted unanimously at this meeting to adopt a revised supplement to Regulation D, Reserves of Member Banks, requiring that, effective as of the opening of business on April 15, 1938, each member bank shall maintain reserve balances on deposit with the Federal reserve bank of its district equal to 5 per cent of its time deposits, plus 12 per cent of its net demand deposits if the bank is not located in a reserve or central reserve city, 17 1/2 per cent of its net demand deposits if the bank is located in a reserve city, and 22 3/4 per cent of its net demand deposits if the bank is located in a central reserve city. It was estimated that the reserve percentages thus prescribed would effect a reduction of approximately \$750,000,000 in the required reserves of member banks.

In taking this action it was recognized by the Board that, while there were ample excess reserves to meet any probable needs of agriculture, commerce and business, there was no immediate danger of an injurious credit expansion. On the contrary, the volume of business activity had declined with rapidity to a point where an injurious, deflationary situation was developing in industry, in the capital market, and in commodity

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prices. In view of these circumstances, the Board decided that a reduction in reserve requirements of member banks is a concerted effort by the Government to encourage recovery, in counteracting the deflationary trend and in thus avoiding an injurious credit contraction.

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RECORDS DIVISION
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