October 24, 1957

Honorable William McC. Martin, Jr.
Chairman, Federal Reserve Board
Washington 25, D. C.

My dear Mr. Chairman:

Those of us who have been urging a relaxation of your tight money policy are pleased to note the announcement of an easing of that policy. That many of us believe that such action is overdue is beside the point. Only time will tell whether or not your present policy will be effective.

I am writing you now, however, to urge upon you that if ever the time was right to remove the inequality between Central Reserve cities and Reserve cities, it is now.

For almost four years you and I have been discussing this matter by letter, orally and before the House Banking and Currency Committee. You will recall that on August 2, 1957, when you appeared before the House Banking and Currency Committee you agreed with me that the sole standard used in setting up Central Reserve cities and Reserve cities is geographic and that such "a geographic division is not good." You also stated that you "would be for" changing the system so that the same reserve requirements would apply in the Central Reserve cities and in the Reserve cities and you expressed the hope that the Board "will do that one of these days."

I have no doubt that one of the tools you will use to ease the credit situation will be reserve requirements.

I urge upon you as vigorously as I can that, in making such changes in reserve requirements, you first equalize the difference now existing between the Central Reserve cities and the Reserve cities. Whether you do
that by changing the designation of the Central Reserve cities or by merely changing the reserve requirements is not too important as long as the result will be that the same requirements apply in New York and Chicago and each of the other Reserve cities.

I am sure you will understand that I have no desire to put the New York and Chicago banks in a better position than the other banks. In the light of present day conditions, however, the removal of the inequalities can be accomplished without any undesirable competitive effects.

It is unrealistic to attempt to finance today's economy with yesterday's money supply. The Board's current action recognizes that present funds are inadequate to maintain the present level of business.

A large part of the cost of doing business is today set by contracts entered into by free agents through collective bargaining. This is in accord with public policy. I know you will agree that it is not the function of the Federal Reserve Board to negate these agreements by monetary measures. On the contrary, it is one of the obligations of your Board to assure a money supply adequate to the needs of our economy. Today the United States Treasury is "past due" in the trade, forcing prime contractors to withhold payments to their subcontractors and forcing both prime contractors and subcontractors to seek funds by borrowing from banks and other lenders. The force that will release the brakes on a dynamic American economy is ample funds.

A ready source for substantial funds is created by a change in the reserve requirements in the Central Reserve cities. In the City of New York alone, demand deposits in those banks aggregate more than 20 billion dollars. Equalization of the reserve requirements by a cut of only 2 per cent means that 400 million dollars now impounded and held idle is made available. That money, when made available, will be the basis of 2 billion dollars of fresh credit.

Withholding that 400 million dollars is not only discriminatory against the New York City banks but it is also extremely harmful to the economy of New York State and of the United States. The idling of that sum of money impedes the borrowing operations of the United States Treasury.
Quite apart from the unfairness of the situation, the best interests of our Government and of all of the people of our country demand that your Board correct this inequality and that you do it now. I trust that you will not again tell me that the Board is still studying this problem but that your answer will be the issuance of a directive along the lines indicated.

With kindest personal regards, I am,

Sincerely yours,

/s/ Abraham J. Multer

Abraham J. Multer

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