

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

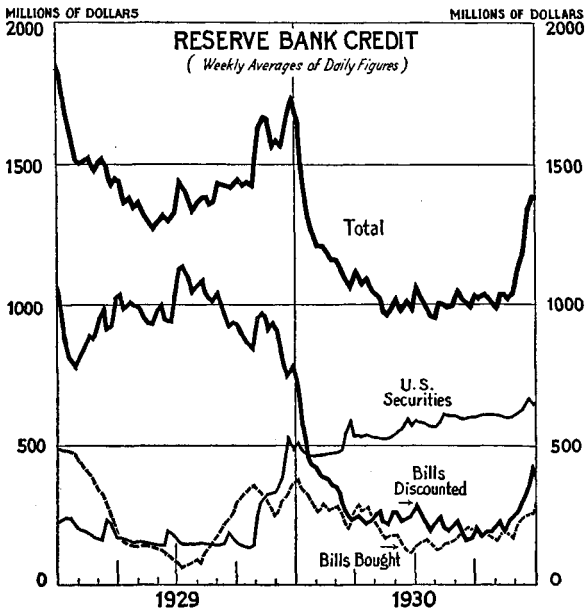
The year 1930 was marked by reduced demand for bank credit from trade and industry and by decreasing commodity prices and money rates, all characteristic of a period of declining activity in business. In these circumstances the Federal reserve system pursued a policy of monetary ease. This policy was expressed through the purchase at intervals of additional United States Government securities and in progressive reductions of reserve bank discount and acceptance rates. Other influences contributing to monetary ease in the United States were gold imports in large volume from Latin America and the Orient, and a diminished domestic demand for currency throughout the larger part of the year, caused by the decline in business activity and in the level of commodity prices. The inflow of gold from abroad and of currency from circulation had the effect of reducing the volume of reserve bank credit outstanding during the year. Member and nonmember bank credit also declined, reflecting a reduction in the demand for loans from the banks' customers engaged in trade and industry, which was offset only in part by an increase in the banks' holdings of investment securities and of paper purchased in the open market. Bank failures were in larger number in 1930 than in previous years, most of the failures being of small rural banks that had been in a weakened condition for some time; but there were also a few failures of large city banks that had accumulated unliquid loans and suffered losses in recent years through operations based directly or indirectly on overvalued real estate and securities.

FEDERAL RESERVE CREDIT

Money rates, which for more than a year prior to October, 1929, had been on a rising level—owing largely to the rapid growth in the demand for credit to finance speculative activities in many lines and in different sections of the country—declined after the autumn break in the financial markets of the country. Industrial activity, which had reached a peak in June, 1929, also declined in the latter part of that year, particularly in the last two months, and the level of commodity prices showed a sharp recession. The Federal reserve system during the last two months of 1929 purchased \$350,000,000

of United States securities and reduced discount and acceptance rates. During 1930 further purchases of United States securities were made at intervals and rates for discounts and acceptances were reduced by successive steps, as noted below. The chart below shows the course of Federal reserve bank credit and its components during 1929 and 1930.

During the month of March, 1930, holdings of securities increased to \$530,000,000 and remained at that figure to the end of May. During the summer months these holdings were increased to \$600,000,000 and remained at about that figure until December, when additional purchases of a temporary nature were made, partly for the purpose



of counteracting the tightening effect of seasonal credit and currency demands upon the money market and partly in connection with disturbances in the banking situation.

Acceptance holdings of the reserve banks, which were at about \$390,000,000 at the opening of the year, declined during the first six months, when seasonal influences are in this direction, and reached a low level of \$100,000,000 by the end of June. This decline in bill holdings was due in part to the fact that, with the abundance of short-time funds in the money market, bills offered an attractive investment for banks and others, and bill offerings to the reserve banks consequently declined. From midsummer reserve bank holdings of bills showed a seasonal expansion, and at the close of the

year they were at about the same figure as at the end of 1929. During the larger part of the crop-marketing season, however, when these holdings usually show the greatest increase of the year, the system's holdings of acceptances increased less than usual, largely because of considerable purchases of bills by member banks. Toward the end of November member bank holdings of acceptances reached the unprecedented total of \$500,000,000, and the member banks were accordingly enabled in the last weeks of the year to obtain a considerable part of their seasonal requirements through the sale of acceptances to the reserve banks, and the reserve banks' holdings of open-market bills consequently increased rapidly in December.

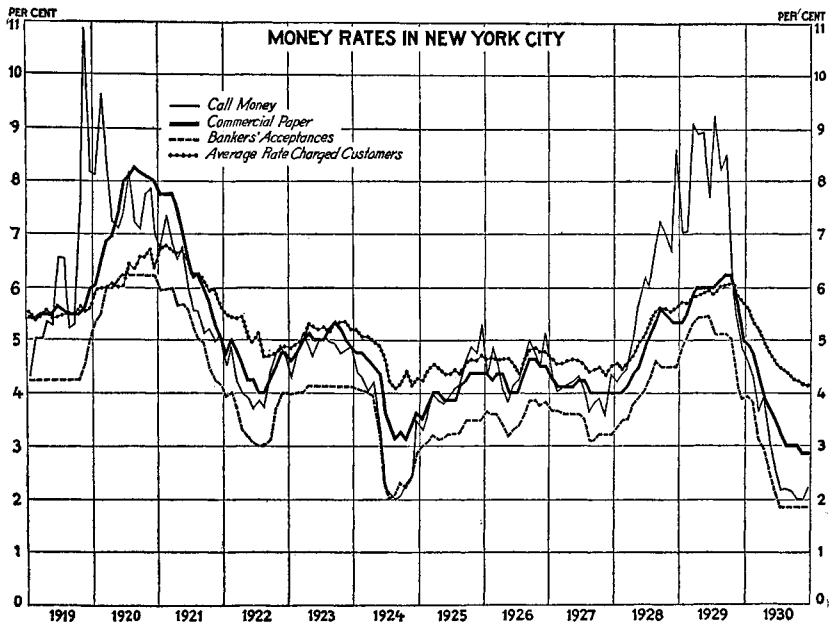
During the autumn, when the export movement of agricultural commodities is at its peak, the Federal reserve banks in 1930, as in 1929, bought moderate amounts of foreign exchange bills, which were carried over the year end.

The growth in the open-market portfolio of the reserve banks in a year when the total demand for reserve bank credit was relatively small and was not increasing resulted in a reduction of member bank indebtedness, which between the middle of March and the latter part of November was around the lowest level for any length of time since 1917. Discounts remained at approximately \$225,000,000 from April to December, but rose to a maximum of \$450,000,000 on the day preceding Christmas, when currency demand reached its seasonal peak and when a large volume of currency had been called into use in connection with bank failures. This temporary rise was followed by a rapid liquidation after the holiday demand was over.

While discounts for all member banks were at a low level throughout the year, banks in the financial centers were practically out of debt during a considerable part of the year. This low level of indebtedness at the reserve banks was an influence in the direction of easier money conditions, which were reflected in lower rates both on open-market paper and on loans made by banks to their customers. The chart brings out the course of money rates for the years 1919 to 1930, showing that the rates in the latter part of 1930 were lower than at any other time during the 12-year period covered.

Rates on acceptances fell from $5\frac{1}{8}$ per cent in the autumn of 1929 to $1\frac{7}{8}$ per cent at the close of 1930; rates on commercial paper from $6\frac{1}{4}$ to $2\frac{7}{8}$ per cent, while call money was around 2 per cent, frequently falling below that level in the last six months of the year. Rates charged to customers by banks in New York City, which from August through October, 1929, had been above 6 per cent, had dropped to $4\frac{1}{8}$ per cent by the end of 1930. The year, therefore, was one of low rates for money.

Between October, 1929, and the early days of 1931 discount rates at the reserve banks were reduced from 6 to 2 per cent at the Federal Reserve Bank of New York; from 5 to 2½ per cent at Boston; from 5 to 3 per cent at Cleveland, Atlanta, Chicago, St. Louis, and



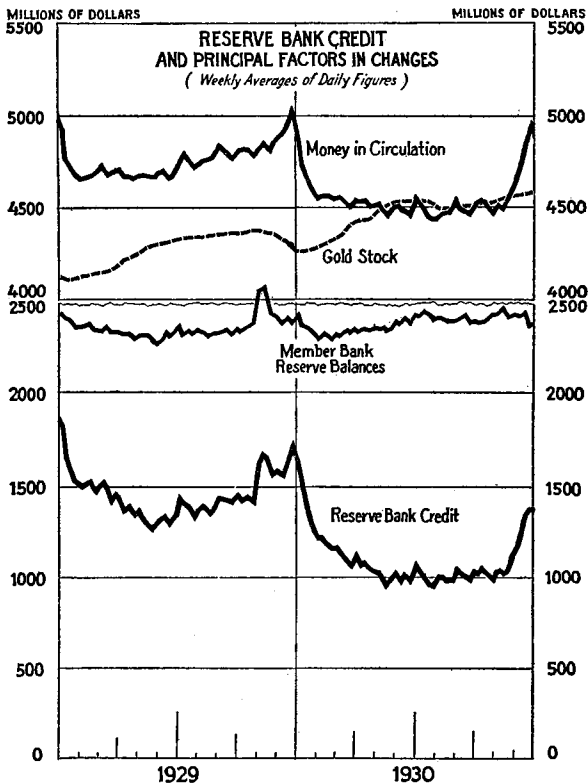
San Francisco; and from 5 to 3½ per cent at Philadelphia, Richmond, Minneapolis, Kansas City, and Dallas. The following table shows the change in discount rates between October 31, 1929, and January 10, 1931:

CHANGES IN DISCOUNT RATES

Federal reserve bank	Rate in October, 1929 (per cent)	Rate in January, 1931 (per cent)	Date of latest reduction
Boston.....	5	2½	Jan. 2, 1931.
New York.....	6	2	Dec. 24, 1930.
Philadelphia.....	5	3½	July 3, 1930.
Cleveland.....	5	3	Dec. 29, 1930.
Richmond.....	5	3½	July 18, 1930.
Atlanta.....	5	3	Jan. 10, 1931.
Chicago.....	5	3	Do.
St. Louis.....	5	3	Jan. 8, 1931.
Minneapolis.....	5	3½	Sept. 12, 1930.
Kansas City.....	5	3½	Aug. 15, 1930.
Dallas.....	5	3½	Sept. 9, 1930.
San Francisco.....	5	3	Jan. 9, 1931.

Notwithstanding these reductions in rates and the purchase of securities by the reserve banks, the total volume of reserve bank

credit declined during the year and from May to October was near the \$1,000,000,000 level, as compared with an average of \$1,375,000,000 during the corresponding period of 1929. This decrease in reserve bank credit reflected a gradual increase in the stock of monetary gold, which for the year amounted to \$310,000,000, and a decline of currency in circulation through the larger part of the year, while member bank reserve balances remained relatively constant. Changes



in the three principal factors affecting the amount of reserve bank credit outstanding, namely, gold, currency, and member bank reserve requirements, are shown for 1929 and 1930 in the chart, and will be discussed in some detail in the following paragraphs.

GOLD

During 1930, \$310,000,000 was added to the stock of monetary gold in the United States, bringing the weekly average figure at the close of the year to \$4,590,000,000. This amount was within less than \$100,000,000 of the peak figure of May, 1927. The latter part of 1927 had been marked by easy money conditions in the United

States, and this fact, together with the restoration of the French franc and other currencies to the gold standard, had led to a heavy outward movement of gold that continued through the first half of 1928. During 1928, however, money rates advanced in this country; and early in 1929 the movement of gold became definitely inward, with the result that in the first 10 months of 1929 the monetary gold stock of the United States rose by \$238,000,000. This movement was abruptly terminated by the break in the stock market at the end of October and the rapid decline of money rates which followed, and in the final two months of the year \$100,000,000 of gold was exported, but early in 1930 gold again began to flow to the United States.

The circumstances surrounding the renewed influx of gold in 1930 differed in important respects from those which had influenced preceding movements. With the exception of two months in the summer, when gold was shipped to France, the movement to Europe ceased. This was largely on account of the fact that money rates abroad, which had been kept up to protect the reserves of foreign countries against the attraction of speculative and high-money conditions in the United States, declined rapidly late in 1929, when these conditions changed. By the beginning of 1930 a temporarily balanced situation had developed as between this country and Europe, in which gold moved in neither direction. On the other hand, gold flowed into the United States from Japan, China, Brazil, Argentina, and other Central and South American countries, and gold flowed into England from South America and Australia. In general, the movement of gold was one from outlying countries producing raw materials to the financial centers and bore no significant relation to differentials in money rates. The difficulties in which the outlying countries found themselves reflected chiefly a decline in the value of many of their most important commodity exports, as well as the effects of a long period of conditions in the United States unfavorable to the flotation of foreign bonds. In Japan the immediate cause of the loss of gold was the removal on January 11, 1930, of the embargo on exports of the metal—a necessary final step in the return of the country to the gold standard. In Argentina, on the other hand, the redemption of notes in gold at the Government conversion office was discontinued on December 16, 1929, and by this means gold exports were prevented during the greater part of the year, and when they were resumed in the autumn of 1930 they were strictly controlled and for account of the Government only. In Australia, also, measures were taken in December, 1929, to make the shipment of gold subject to the discretion of the central authorities. In Brazil the de facto stabilization of the cur-

rency was abandoned at the close of 1929, and the Government stabilization office was abolished altogether on November 22, 1930. China, a silver-using country, was affected by the sharp appreciation of gold in terms of silver and the consequent barter of gold for silver. Japan continued to maintain an effective gold standard with a free gold market; but in Japan, as in the other countries mentioned, the pressure of the declining value of commodity exports, in conjunction with continued inability to borrow in volume abroad, resulted in gold exports as the only means for covering foreign payments.

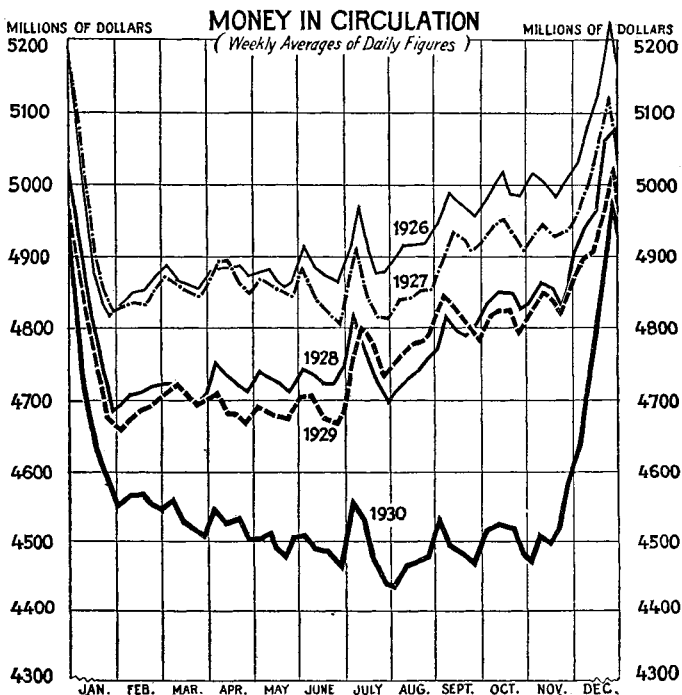
In these circumstances the United States received, during 1930, \$157,000,000 gold from Japan, \$88,000,000 from Brazil, \$23,000,000 from China, \$21,000,000 from Mexico, \$20,000,000 from Argentina, and \$36,000,000 from other Central and South American countries. England during the 15 months ending with December, 1930, acquired \$136,000,000 of gold from Australia, \$44,000,000 from Brazil, and \$43,000,000 from Argentina. In all, \$568,000,000, an amount substantially in excess of the total production of the gold mines of the world during 1930, was thus transferred to the monetary gold stocks of the more important financial centers.

Of the gold, amounting to \$345,000,000, received by the United States from these outlying countries, \$74,000,000 was shipped to France. The gold received from similar sources by England, as well as \$209,000,000 of newly mined gold received during the year from Rhodesia and South Africa, was largely exported to France.

CURRENCY

Another of the principal factors affecting changes in the demand for reserve bank credit is the course of domestic demand for money in circulation. A chart is here presented showing the volume of money in circulation from 1926 to 1930. The chart shows that the volume of United States money in circulation has been decreasing continuously since 1926. Up to 1929 this decrease was not due to any considerable extent to a decline in the volume of pay rolls or retail trade, usually the two principal factors of currency demand, but represented partly a decrease in the cash carried by banks in vault, a return flow of American currency from abroad, and a gradual increase in the use of checks as a substitute for cash payments. In 1930, on the other hand, the rapid decrease in currency in circulation and its maintenance in the autumn months at a level about \$300,000,000 below that of 1929 reflected the effects of the slowing down in business activity. The chart on page 9 shows the course of industrial production and factory employment from 1919 to 1930. By the end of 1930 factory pay rolls had declined by 35 per cent from

the peak of 1929, and retail trade was also in smaller volume as a result of a decline both in physical volume of trade and in retail prices. For the first 10 months of the year the return flow of currency from circulation was the largest single factor in the diminished demand for reserve bank credit. During the last two months of the year, however, the demand for currency rose by nearly \$500,000,000, a much larger increase than is usual during the holiday season, even in years of active business. This rapid increase in November and

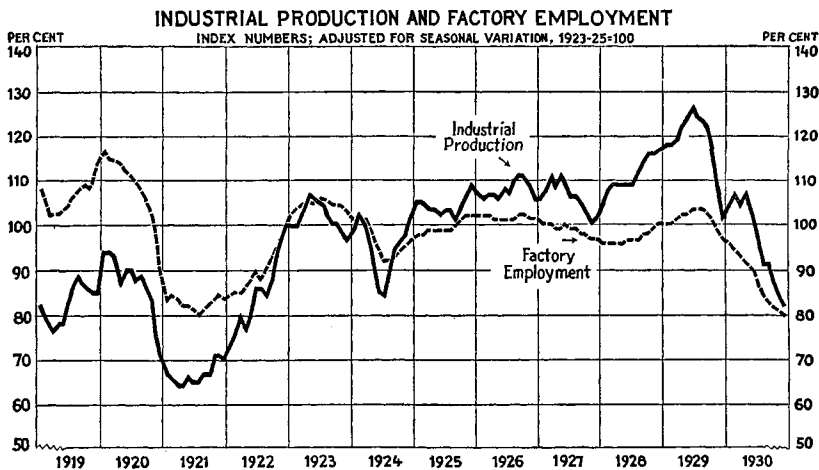


December, in excess of seasonal requirements, was due to the failure of several large banks, which resulted in runs on other banks and currency withdrawals, together with an increase of bank holdings of vault cash as part of the process of maintaining an exceptionally liquid position. As a consequence of these developments, the amount of currency outstanding, which in October had been \$300,000,000 lower than the year before, was at the end of 1930 as large as at the end of 1929.

MEMBER BANK CREDIT

Taking the year 1930 as a whole, there was relatively little change in the aggregate volume of reserve balances held by the member banks with the reserve banks—the other important factor in the demand for reserve bank credit—and the factor that is directly related

to changes in the volume of member bank credit. The absence of change in member bank reserve balances during the year was due to the maintenance at the member banks of a fairly constant volume of demand and time deposits, on which the member banks' reserve requirements are based. Loans and investments of the banks, however, showed a considerable decline during the year, as the demand for credit by trade and industry diminished with the slackening of business activity. In considering developments in member bank



credit, the 15-month period from October 4, 1929—the date of the last report for all member banks prior to the break in the stock market—to the end of 1930 may be treated as a unit. The following table shows changes in the principal asset items of the member banks during that 15-month period:

CHANGES IN ASSETS OF MEMBER BANKS—OCTOBER 4, 1929—DECEMBER 31, 1930

[In millions of dollars]

	All member banks	Member banks in—		Member banks outside reserve cities
		New York City	Other reserve cities	
Loans and investments, total.....	-1,054	+432	-226	-1,261
Loans to banks.....	-10	-19	-8	+17
Loans to other customers, total.....	-2,243	-508	-869	-865
Secured by stocks and bonds.....	-167	+192	-213	-146
Secured by real estate.....	+81	-28	+139	-30
Otherwise secured and unsecured.....	-2,157	-672	-795	-689
Open-market loans, total.....	-42	+330	+5	-376
Acceptances.....	+207	+119	+113	-24
Commercial paper.....	+138	+26	+137	-25
Street loans.....	-387	+185	-245	-327
Investments.....	+1,240	+629	+647	-36

During the 12 months beginning in October, 1929, there was a large liquidation of loans to customers, and particularly of loans to trade and industry, reflecting the effects of reduction in current credit requirements at a time of diminished business activity. The heavy liquidation of local customer loans was largely offset during that period by an increase in investments and in open-market loans, including acceptances, commercial paper, and street loans. The increase in street loans during that time represented that part of the loans withdrawn by nonbanking lenders that was taken over by the banks after the break in security prices. By the final quarter of 1930, however, these loans had declined to a small figure, and continued liquidation of security loans was reflected in a reduction of street loans by member banks for their own account, which at the end of the year were at a level \$400,000,000 lower than before the break in the stock market. During the last quarter of 1930 there was little further liquidation of customer loans, but street loans continued to decline as the demand for accommodation from the stock market decreased, with the net result that loans and investments of member banks during the 15-month period decreased in all by \$1,050,000,000.

This decrease in total loans and investments of all member banks was not equally distributed between different groups of banks. At member banks in New York City total loans and investments showed an increase of \$432,000,000 for the 15-month period, while member banks in other reserve cities showed a decrease of \$226,000,000, and member banks outside reserve cities—so-called “country banks”—a decrease of \$1,261,000,000. The largest decreases in all classes of banks were shown for loans made to customers, not secured by stocks and bonds or real estate, the decrease in these loans during the 15 months reflecting largely the reduction in volume of business activity. Loans to customers secured by stocks and bonds increased at New York banks, but decreased in the other groups of banks. The open-market loan portfolio of member banks showed relatively little change for the period, a considerable increase at New York City banks being somewhat more than offset by a decrease at country banks. Bank holdings of purchased acceptances and open-market commercial paper, however, increased in New York and in the other reserve cities, though they diminished outside of these cities. Loans to brokers and dealers in securities in New York, so-called “street loans,” were at a somewhat higher level at New York City banks at the end of 1930 than on October 4, 1929, reflecting the taking over by these banks of a part of the loans previously made by nonbanking lenders; at the other two groups of banks these loans showed a large liquidation. Finally, the banks’ holdings of investments increased in the aggregate by \$1,240,000,000, reflecting

increases of more than \$600,000,000 both at the New York City banks and at other reserve city banks, while at country banks they showed a small reduction. At country banks there was in fact a liquidation all along the line. A part of it was due to the elimination of banks through suspensions, but there has also been a large-scale liquidation of credit at active banks in country districts, reflecting diminished activity of trade and industry in rural areas and a decline in deposits due in part to decreases in the value of agricultural products marketed, resulting both from a smaller volume of sales and a considerable reduction in the prices of principal crops.

The liquidation of member bank credit during the 15 months ending in December, 1930, was accompanied by an even larger liquidation of nonmember bank credit. The latest figures available for nonmember banks show a decrease of \$800,000,000 between October 4, 1929, and September 24, 1930. If the relation of the decrease in nonmember bank credit and in member bank credit may be assumed to have remained approximately the same during the last quarter, then the total decrease in bank credit outstanding for the 15-month period was in the neighborhood of \$3,000,000,000. A part of this decrease in bank credit has been due to bank suspensions during the period, and represents the elimination from the aggregate resources of active banks of the resources of failed banks that have not been gradually absorbed in one way or another by other banks. In addition to the reduction of about \$3,000,000,000 in outstanding bank credit during the 15-month period, there was also a liquidation of about \$5,500,000,000 of loans by nonbanking lenders to brokers and dealers in securities. Consequently, total liquidation of credit extended by banks and by others through the banks has amounted to \$8,500,000,000 for the period.

For the banks of the country the period of 15 months ending in December of 1930 was one of readjustment and liquidation. Through the experience of this period and of the preceding few years many important problems connected with the structure and functioning of our banking system are becoming more clearly defined. These problems are at present receiving consideration by congressional committees. Since these committees are conducting investigations with a view to determining the need of legislative and administrative reforms, the Federal Reserve Board refrains in this annual report from making recommendations to Congress.

DETAILS OF OPERATION

In the preceding pages there has been presented a brief discussion of business and banking developments in 1930 and of the policies pursued by the Federal reserve system during the year. In the following sections of this report there is given a more detailed account of the operations of the Federal reserve banks and branches and of administrative matters with which the Federal Reserve Board has dealt during 1930.

EARNINGS, EXPENSES, AND VOLUME OF WORK OF THE FEDERAL RESERVE BANKS

During 1930 the gross earnings of the Federal reserve banks, at \$36,424,000, were \$34,531,000 less than in 1929 and the lowest since 1917. The deduction of current expenses of \$28,343,000—somewhat less than the previous year—and adjustments for depreciation, reserves for losses and self-insurance, resulted in net earnings of \$7,988,000 available for distribution as dividends, transfers to surplus, and franchise tax to the Government. Earnings, expenses, and distribution of earnings for all reserve banks combined for 1929 and 1930 are summarized in the accompanying table.

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1929 AND 1930

[In thousands of dollars]

	1930	1929	Increase or decrease (—) 1930
Total earnings.....	36,424	70,955	—34,531
Current expenses.....	28,343	29,691	—1,348
Current net earnings.....	8,081	41,264	—33,183
Additions (withdrawals from reserves, etc.).....	3,475	956	2,519
Deductions (for reserves, etc.).....	3,568	5,817	—2,249
Net deductions.....	93	4,861	—4,768
Net earnings available for distribution.....	7,988	36,403	—28,415
Dividends paid.....	10,289	9,584	685
Transferred to surplus.....	—2,298	22,536	—24,834
Franchise tax paid to United States Government.....	17	4,283	—4,266

The lower gross earnings reflected a decrease of \$356,000,000 in the daily average holdings of bills and securities, together with a reduction in the average rate of earnings from 4.86 per cent to 3.25 per cent. Earnings from bills discounted decreased from \$47,791,000 in 1929 to \$10,672,000 in 1930, the result of a decrease of \$679,000,000 in average daily holdings of discounts and a lowering of the average rate of earnings from 5.03 per cent to 3.93 per cent. Earnings from bills bought in the open market were also lower, but earnings from the larger holdings of Government securities, at \$17,273,000, were \$9,108,000 larger than in 1929. The rate of return on bills bought in the open market was 2.85 per cent in 1930, compared with 5 per cent

in 1929; on Government securities 3.06 per cent, compared with 3.93 per cent. The average holdings of discounted bills, bills bought in the open market, United States Government securities, and other bills and securities, together with average rates and amounts earned on each, are shown for recent years in the accompanying table.

EARNINGS ON BILLS AND SECURITIES

[Amounts in thousands of dollars]

Year	Bills and securities held by all Federal reserve banks				
	Total	Bills discounted	Bills bought in open market	United States Government securities	All other bills and securities
Daily average holdings:					
1925.....	1, 139, 507	481, 515	287, 329	358, 962	11, 701
1926.....	1, 209, 309	570, 613	281, 386	349, 790	7, 520
1927.....	1, 124, 538	442, 287	263, 258	417, 480	1, 513
1928.....	1, 467, 371	839, 942	327, 806	297, 499	2, 124
1929.....	1, 413, 058	950, 580	241, 399	207, 659	13, 420
1930.....	1, 056, 895	271, 727	213, 201	563, 672	8, 295
Average rate of earnings (per cent):					
1925.....	3. 51	3. 67	3. 17	3. 56	3. 59
1926.....	3. 76	3. 95	3. 55	3. 60	4. 21
1927.....	3. 60	3. 83	3. 49	3. 41	3. 88
1928.....	4. 24	4. 56	3. 97	3. 64	4. 34
1929.....	4. 86	5. 03	5. 00	3. 93	4. 94
1930.....	3. 25	3. 93	2. 85	3. 06	4. 09
Earnings:					
1925.....	39, 986	17, 680	9, 104	12, 783	419
1926.....	45, 460	22, 552	10, 003	12, 589	316
1927.....	40, 482	17, 011	9, 207	14, 206	58
1928.....	62, 275	38, 334	13, 021	10, 828	92
1929.....	*68, 683	47, 791	12, 064	8, 165	*663
1930.....	34, 365	10, 672	6, 081	17, 273	339

* Revised.

Total current expenses of the Federal reserve banks in 1930 were \$28,343,000 which is \$1,348,000 less than in 1929. The cost of printing, issuing, and redeeming currency was \$924,000 lower than the figure of \$3,099,000 for the previous year, when this cost was unusually high by reason of the expense incurred in the process of substituting notes of smaller dimension for the old size. Salaries paid to officers aggregated \$2,680,000 for the year, and to clerical staff and others \$14,574,000, making a total expenditure of \$17,254,000 for all salaries and wages, compared with \$17,265,000 in the preceding year. Other major expenditures included taxes on banking houses aggregating \$1,374,000, as against \$1,470,000, and telegraphic and postage charges amounting to \$2,247,000, as against \$2,444,000 in 1929.

The average number of officers and employees decreased from 9,995 in 1929 to 9,797 in 1930, and there was some falling off in the volume of work handled in the principal departments of the banks, except in the currency and coin departments. The following table shows the volume of work handled during 1930 and the three preceding years:

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS

	1927	1928	1929	1930
NUMBER OF PIECES HANDLED				
Bills discounted:				
Applications.....	97,000	123,000	145,000	99,000
Notes discounted.....	371,000	443,000	526,000	415,000
Bills purchased in open market for own account.....	254,000	251,000	196,000	208,000
Currency received and counted.....	2,194,608,000	2,270,555,000	2,427,330,000	2,441,989,000
Coin received and counted.....	2,691,184,000	2,929,091,000	3,239,709,000	3,325,555,000
Checks handled.....	862,275,000	887,997,000	924,449,000	904,975,000
Collection items handled:				
United States Government coupons paid.....	37,045,000	28,765,000	20,935,000	19,362,000
All other.....	5,909,000	6,461,000	6,504,000	6,388,000
United States securities—issues, redemptions, and exchanges by fiscal agency department.....	7,201,000	6,682,000	1,833,000	1,417,000
Transfers of funds.....	1,830,000	2,011,000	2,139,000	1,868,000
AMOUNTS HANDLED				
Bills discounted.....	\$31,934,807,000	\$62,412,961,000	\$80,747,124,000	\$14,067,117,000
Bills purchased in open market for own account.....	4,050,867,000	4,240,669,000	3,587,478,000	3,873,698,000
Currency received and counted.....	12,939,578,000	13,315,551,000	14,782,429,000	14,262,809,000
Coin received and counted.....	1,432,131,000	1,451,125,000	1,478,219,000	1,537,534,000
Checks handled.....	278,399,627,000	301,703,814,000	367,215,123,000	324,883,021,000
Collection items handled:				
United States Government coupons paid.....	553,703,000	543,373,000	535,612,000	499,111,000
All other.....	6,710,317,000	7,414,440,000	7,185,384,000	7,528,014,000
United States securities—issues, redemptions, and exchanges by fiscal agency department.....	10,803,043,000	9,002,383,000	7,018,844,000	7,245,189,000
Transfers of funds.....	136,383,899,000	148,749,027,000	170,789,699,000	198,880,880,000

* Revised.

Five of the reserve banks—New York, Philadelphia, Atlanta, Minneapolis, and Dallas—reported sufficient net earnings to pay accrued dividends in full, the remaining seven banks paying their dividends entirely or in part out of surplus. The surplus of the 12 Federal reserve banks combined after the closing of the books at the end of the year amounted to \$274,636,000, a net reduction for the year of \$2,298,000, although the New York, Philadelphia, Minneapolis, and Dallas banks made some additions to their individual surplus accounts, the latter two paying small franchise taxes. The total subscribed capital of the Federal reserve banks at the end of 1930 amounted to \$339,280,000, against \$341,951,000 a year before.

Gross and net earnings during the year and the distribution of net earnings of each Federal reserve bank are shown in the following table:

FINANCIAL RESULTS OF OPERATIONS OF THE FEDERAL RESERVE BANKS DURING 1930

Federal reserve bank	Gross earnings	Net earnings	Dividends paid	Transferred to surplus	Franchise tax
Boston.....	\$2,368,086	\$253,777	\$705,949	-\$452,172	-----
New York.....	10,393,189	4,588,384	4,013,779	574,605	-----
Philadelphia.....	2,996,243	1,102,771	1,002,602	100,169	-----
Cleveland.....	3,585,202	783,777	952,934	-169,157	-----
Richmond.....	1,641,390	-28,797	353,472	-382,269	-----
Atlanta.....	1,963,724	323,307	323,307	-----	-----
Chicago.....	4,834,153	1,054,323	1,211,418	-157,090	-----
St. Louis.....	1,745,685	1,114	815,839	-314,725	-----
Minneapolis.....	1,235,082	193,589	184,445	-----	\$8,230
Kansas City.....	1,667,667	-200,976	269,397	-460,373	-----
Dallas.....	1,585,113	272,597	262,510	-----	9,078
San Francisco.....	2,408,510	-355,689	682,946	-1,038,635	-----
Total.....	36,424,044	7,988,182	10,268,598	-2,297,724	17,308

BUILDING OPERATIONS OF FEDERAL RESERVE BANKS

The building for the use of the Los Angeles branch, construction of which was begun in 1929, was completed in 1930 and was occupied on April 14.

On January 2, 1930, a site was purchased for a new building for the Pittsburgh branch, and on April 14 the President signed a joint resolution of Congress authorizing an expenditure of \$875,000 for the construction of the building proper, exclusive of the cost of the vaults, permanent equipment, furnishings, and fixtures. Ground was broken for the erection of the building on November 1, 1930.

During the year a site adjoining the Philadelphia building was purchased to provide for future expansion, and construction of an addition to the Richmond building was under way at the end of the year.

BRANCHES AND AGENCIES OF THE FEDERAL RESERVE BANKS

The 25 branches and 2 agencies of the Federal reserve banks which were in operation at the end of 1929 continued to function throughout 1930. As was the case for the system as a whole, the volume of work handled by the branches and agencies in their principal operating departments fell off somewhat in 1930. The following table shows a comparison of the volume of work handled in certain departments during the years 1927, 1928, 1929, and 1930:

VOLUME OF OPERATIONS OF FEDERAL RESERVE BANK BRANCHES AND AGENCIES

	1927	1928	1929	1930
Checks handled:				
Number of items.....	253,322,000	268,814,000	277,778,000	265,300,000
Amount.....	\$64,724,395,000	\$68,273,066,000	\$72,034,805,000	\$62,834,956,000
Currency received and counted:				
Number of pieces.....	497,795,000	535,352,000	594,449,000	581,897,000
Amount.....	\$2,801,165,000	\$2,939,837,000	\$3,259,638,000	\$3,106,716,000
Coin received and counted:				
Number of pieces.....	441,072,000	453,200,000	466,152,000	572,611,000
Amount.....	\$63,450,000	\$67,940,000	\$75,840,000	\$84,394,000

Current expenses during 1930 of the branches and agencies in operation during the year were \$5,987,000, as compared with \$5,996,000 in 1929.

CHANGES IN MEMBERSHIP

During 1930 the number of member banks declined from 8,522 to 8,052, or by 470. Membership at the end of 1930 included 1,019 State banks, which was 100 less than a year earlier, and 7,033 national banks, which represented a decrease of 370 for the year. As in other recent years, the decline in the number of member banks resulted largely from mergers between member banks, suspensions, and absorptions by nonmember banks.

Additions to membership during the year include 33 newly organized national banks, as compared with 71 in 1929, 35 nonmember State banks which converted into national banks, and 18 State banks admitted to membership with State charters. There were also 7 member banks which, having previously suspended operations, reopened during the year. The total of 93 banks added to membership during the year does not, however, include 165 nonmember banks that were absorbed by member banks during the year, although the assets of member banks were increased thereby. The number of nonmembers absorbed the year before was 77.

Mergers between member banks account for a decrease of 199 in the number of such banks in 1930, as compared with a decrease of 171 in 1929. Suspensions account for a loss of 185 in the number of member banks, as compared with 82 in 1929. A total of 134 member banks were lost to membership through conversion into or absorption by nonmember banks; there were 39 voluntary withdrawals of State banks from membership, 2 compulsory withdrawals, and 4 instances in which the existence of member banks was terminated through voluntary liquidation.

In the following table changes in membership for the year 1930 are summarized, by class of member bank :

**CHANGES IN THE NUMBER OF NATIONAL AND STATE BANK MEMBERS DURING 1930
AND 1929**

Procedure effecting change	1930			Total for 1929
	National	State	Total	
Active member banks at beginning of year.....	7, 403	1, 119	8, 522	8, 837
Additions to membership:				
Organization of national bank.....	33		33	71
Conversion of nonmember bank to national.....	35		35	24
Admission of State bank.....		18	18	27
Resumption following suspension.....	5	2	7	5
Conversion within the system.....	2	3		
Total additions.....	75	23	93	127
Losses to membership:				
Merger between member bank—				
National and national or State member and State member.....	143	15	158	132
National and State member.....	22	19	41	39
Voluntary liquidation (terminal).....	3	1	4	3
Suspension and insolvency.....	159	26	185	82
Absorption of member bank by nonmember bank.....	96	13	109	95
Conversion of member bank to nonmember bank.....	19	6	25	49
Withdrawal of State bank.....		41	41	42
Conversion within the system.....	3	2		
Total losses.....	445	123	563	442
Net decrease.....	-370	-100	-470	-315
Active member banks at end of year.....	7, 033	1, 019	8, 052	8, 522

¹ Exclusive of 2 banks that suspended at the end of 1930 but which were included in the comptroller's Dec. 31 abstract.

² Includes 2 compulsory withdrawals.

BANK EXAMINATIONS

The board, through its division of examination, conducted at least one examination of each Federal reserve bank during the year; two of the reserve banks were examined twice.

One banking corporation operating under provisions of section 25 (a) of the Federal reserve act, generally referred to as the Edge Act, providing for banking corporations authorized to do foreign banking business, was examined during the year.

Two banking corporations operating under an agreement with the board, as provided for in section 25, were also examined during the year.

BANK SUSPENSIONS

There were 1,345 bank suspensions in 1930, a larger number than in any other year. Deposit liabilities of suspended banks were \$865,000,000, compared with \$272,000,000, the highest previous figure, which was recorded in 1926. The figures of deposits in failed banks are not a measure of the amount of deposits lost by depositors, as they do not take account of amounts received by them from time to time from the receivers in charge of the liquidation of the suspended banks. Of the 1,345 banks suspended during the year 1930, 187 were members of the Federal reserve system and 1,158 were nonmember

banks. Banks reopened in 1930 numbered 147, with deposits of \$61,599,000.

The following table shows for 1930 the number and deposits of the banks that suspended operations in selected States. The largest number of failures during the year occurred in Arkansas, Illinois, and Missouri.

BANK SUSPENSIONS IN SELECTED STATES DURING 1930

State	Number of sus-pensions	Deposits (in mil-lions of dollars)	State	Number of sus-pensions	Deposits (in mil-lions of dollars)
Arkansas.....	135	47	Florida.....	39	45
Illinois.....	126	63	Texas.....	34	11
Missouri.....	104	20	Alabama.....	34	9
North Carolina.....	93	57	Georgia.....	31	6
Indiana.....	90	38	Kentucky.....	29	63
Iowa.....	86	31	Tennessee.....	23	28
North Dakota.....	60	5	South Carolina.....	27	7
South Dakota.....	54	11	All other States.....	236	376
Mississippi.....	52	27			
Nebraska.....	44	10	Total.....	1,345	865
Kansas.....	43	11			

In 1930, as previously, the majority of bank failures was among small banks. In the past year, however, some large institutions closed their doors, one having as much as \$160,000,000 in deposit liabilities and two others of \$38,000,000 and \$35,000,000, respectively, with the consequence that average deposits of suspended banks were \$640,000 in 1930, compared with \$300,000 for the preceding nine years.

BRANCH AND GROUP BANKING

During the first six months of 1930, while the aggregate number of banks in the United States decreased, there was an increase in the number of banks in chains or groups, as well as the number of branch offices. On June 30, 1930, the number of banks in the United States was smaller by 5,144 than six years earlier, but the number of branches had increased by 1,325, so that the decrease in the total number of banking offices was 3,819. During the first six months of 1930 there was a decrease of 778 in the number of banks and an increase of 71 in the number of branches.

The group of 22 States in which the establishment of branches is now prohibited lost 3,051 banking offices, nearly one-fifth of those in existence at the beginning of the 6-year period. In the area where state-wide branch banking is permitted, banking offices decreased by 287, or about one-twelfth, reflecting a decrease of 760 banks, offset in part by an increase of 473 in branches. On the other hand, the group of States in which branches are restricted as to location showed a net increase in banking offices of 262, resulting from an increase of

860 branches, offset in part by a decrease of 598 in the number of banks.

The increase in branch offices during the first six months of 1930 occurred chiefly in the home city or county, 43 of the increase of 71 being of this class. The comparatively restricted nature of branch-banking developments from a geographical point of view is reflected in the fact that of the 3,618 branch offices in the country on June 30, 1930, only 720 were located outside of the home-office city or county, of which 451 were in California, 58 in South Carolina, and 46 in North Carolina.

Twenty-five large banks in seven cities—New York, Detroit, Los Angeles, Cleveland, Boston, Buffalo, and New Orleans—each having 18 or more branches and all confining their branch activity to the city, had among them nearly 1,000 branches, and of the nearly 900 branches operated by 16 large systems whose branch activities were not so limited, more than one-fourth were within the home-office city.

On June 30, 1930, there were 817 banks operating branches, 5 less than six months earlier. Decreases in branch systems resulted from 20 mergers, 12 suspensions, and in 7 cases the discontinuance of branches, offset in part by 32 new branch systems and the reopening of 2 systems following suspension. The increase of 71 branch offices resulted from the conversion of 62 banks into branches, the establishment of 89 branches de novo, and 2 resumptions following suspension—while 60 branch offices were discontinued and 22 were closed with suspension of the parent bank.

At the end of June, 1930, branches were in operation in 30 States and the District of Columbia—1,308 in the 9 States and the District of Columbia which permit state-wide branch banking; 2,257 in the 12 States which restrict the establishment of branches to the home city of the parent bank or territory nearly contiguous thereto; 52 in 8 States in which the further extension of branch banking is prohibited by State law; and 1 in the State of New Hampshire, where there is no provision in State law regarding branch banking.

Two-thirds of the 3,618 branches in operation in June were located in 5 States—California, New York, Michigan, Ohio, and Pennsylvania—while more than 100 branches were in operation in each of 4 other States—Massachusetts, New Jersey, Louisiana, and Maryland.

A large majority of the banks operating branches in June were operating only one or two branches each. Of the 817 banks operating branches, 443, or more than one-half, were operating only 1 branch each, 144 were operating 2, and 132 were operating 3 to 5.

Of the 817 banks operating branches on June 30, 1930, 165 were national banks with 1,041 branches, 169 were State member banks

with 1,308 branches, and 483 were nonmember State banks with 1,269 branches.

The group¹ banking movement gained 79 constituent banks during the first six months of 1930, of which 53 banks were in new groups and 127 were added to old groups. Partly offsetting these increases, groups lost 30 banks because of mergers, 24 because of suspensions, and 47 because of withdrawals, dissolutions, etc. The 2,144 constituent banks reported for June 30, 1930, belonged to 289 different group systems, there being one more group than at the end of 1929. Although 12 new groups were formed during the 6-month period, suspensions, mergers, etc., accounted for the disappearance of 11 groups.

While group-banking developments have not been generally restricted by provisions in State banking codes, the area within which these developments have been more considerable in extent is composed largely of States which have prohibited the establishment of branch-banking offices either by statute or by administrative policy, as, for example, in Minnesota, North Dakota, Kansas, Iowa, Illinois, Oklahoma, and Texas. Developments of this character, however, have by no means been restricted to these States, as groups have shown very considerable developments elsewhere, particularly in several of the States—Michigan and New York, for example—which have restricted the development of branch banking to the building up of home-city or local branch systems, and in California, which permits state-wide branch banking. There were, in fact, few States in which no affiliation of banking institutions in group systems was reported in June, 1930, and the group-banking area is in general much more extensive and less clearly defined than the branch-banking area.

¹ The word "group" is used to include chains as well. Three types of chain or group systems have been reported, which may be characterized with reference to the controlling agency, as follows:

(1) Instances where control is exercised by a holding corporation, which has usually been formed by interests connected with one or more of the principal banks belonging to the system.

(2) Instances where control is exercised by the principal bank of the system, either through direct ownership of stock by the bank or through ownership by the stockholders or directors of the bank.

(3) Instances of ownership of controlling or substantial interest in a number of banks by an individual, family, or group of individuals.

Recent developments have been conspicuously of the first and second types, and these developments, commonly utilizing holding companies as controlling agencies, have been distinguished in some discussions as "group systems," the designation of "chain system" being reserved for organizations of the third type. These classifications by types of control are, however, very general, since the actual method and agency of control varies from system to system and may in the case of any given system be modified from time to time.

In the board's compilations, only affiliations of 3 or more banks are classified as chain or group systems. It follows that some single banks classified as independent unit banks may be affiliated through stock ownership with other single banks.

During the six months' period the group movement showed a gain of 12 banks in Illinois, 9 in Wisconsin, and 8 in Florida (3 States in which branches are prohibited by law), and of 11 banks in Tennessee and 7 in Ohio (2 States in which branches are restricted as to location). In Iowa there were 14 fewer banks members of chains and groups than six months earlier.

Several of the large group systems in operation in June included one or more banks operating branches, and while in some instances all of the banking offices of the group were located within the confines of a single State, in other instances they were located in several States. Forty-four important groups, none with less than 6 banks, had among them 902 of the total number of 2,144 banks associated with groups in the country as a whole. In addition, the members of these large groups had 1,037 branches in all, of which 621 were in the home-office city. One large group in the Northwest had as many as 108 members, another in the Northwest 100, while an important group with its head office in New York City, operating chiefly in California, reported 22 bank members having 475 branches.

BANK MERGERS

Mergers affecting members of the Federal reserve system, which were numerous in 1929, were still more numerous in 1930. The merger movement and bank suspensions taken together have served to reduce the total number of banks in the United States by almost 5,000 in a 5-year period ending with June 30, 1930, while banking resources were increasing by \$12,000,000,000 to a total of \$74,000,000,000. During these five years, therefore, the average size of banks, as measured by total resources, increased from \$2,152,000 to \$3,074,000.

During the past five years there have been over 1,400 mergers involving members of the Federal reserve system. The accompanying table brings out the fact that during the 5-year period the national system lost to the State systems 419 banks, while gaining through mergers 310 banks. In the year 1929 the national system suffered numerous defections, some of which were associated with unfavorable feeling toward national charters that arose from a court decision concerning the continuity of fiduciary powers of national banks. That this feeling has in part lost its force is reflected in the fact that in the year 1930, for the first time in recent years, the national system gained through mergers more banks than it lost through mergers. During the year 1930 more outside banks were absorbed by member banks than were lost to the Federal reserve system by merger with nonmember institutions, although in the 5-year period the net movement in this connection was in the opposite direction.

MERGERS AFFECTING MEMBER BANKS, 1926-1930

Type of merger	Number of banks absorbed by mergers				
	1926	1927	1928	1929	1930
Total	164	259	204	343	473
National bank absorbed through merger:					
Total	128	164	139	213	261
With national bank.....	68	96	70	109	143
With State member bank.....	20	19	19	25	22
With nonmember bank.....	40	49	50	79	96
State member bank absorbed through merger:					
Total	23	37	28	53	47
With national bank.....	7	17	11	14	19
With State member bank.....	12	14	8	23	15
With nonmember bank.....	4	6	9	16	13
Nonmember bank absorbed through merger:					
Total	13	58	37	77	165
With national bank.....	2	35	15	55	135
With State member bank.....	11	23	22	22	30
SUMMARY					
Member bank absorbed by merger with member....	107	146	108	171	199
Member bank absorbed by merger with nonmember...	44	55	59	95	109
Nonmember bank absorbed by merger with member...	13	58	37	77	165
National bank absorbed by merger with State bank....	60	68	69	104	118
State bank absorbed by merger with national bank....	9	52	26	69	154

BANKS ON PAR LIST

At the end of 1930 there were 22,445 incorporated banks other than mutual savings banks in the United States. Of this number, 19,008, or 84.7 per cent, were on the Federal reserve par list, which comprises all member banks and such nonmember banks as have agreed to pay, without deduction of exchange charges, such checks drawn upon them as are presented or forwarded for payment by the Federal reserve banks. During the year the number of nonmember banks decreased by 1,406, the number on the par list by 1,089, and the number not on the par list by 317. Of the 3,437 banks not on the par list at the end of 1930, 1,874 were located in the Southern and 1,463 in the North Central States. As will be seen from the following table, all of the banks in the Boston, New York, and Philadelphia districts and all but nine in the Cleveland district were on the Federal reserve par list:

MEMBERSHIP IN PAY COLLECTION SYSTEM ¹

[Number of banks at end of December]

Federal reserve district	Member banks		Nonmember banks			
	1930	1929	On par list		Not on par list	
			1930	1929	1930	1929
United States.....	8,052	8,522	10,956	12,045	3,437	3,754
Federal reserve district:						
Boston.....	396	404	260	271	-----	-----
New York.....	914	931	395	404	-----	-----
Philadelphia.....	753	764	451	476	-----	-----
Cleveland.....	757	795	936	991	9	9
Richmond.....	470	514	523	577	441	546
Atlanta.....	390	425	186	254	862	926
Chicago.....	1,081	1,186	3,200	3,485	238	229
St. Louis.....	513	571	1,404	1,670	417	477
Minneapolis.....	642	683	497	582	1,007	1,101
Kansas City.....	871	893	1,917	2,096	191	197
Dallas.....	684	746	572	605	211	207
San Francisco.....	581	607	615	634	61	62

¹ Incorporated banks other than mutual savings banks.

TRUST ACTIVITIES OF NATIONAL BANKS

The Federal Reserve Board in 1930 approved 111 original and 21 supplementary applications by national banks for permission to exercise fiduciary powers under the provisions of section 11 (k) of the Federal reserve act.

Since the first fiduciary permit was granted by the Federal Reserve Board to a national bank on February 25, 1915, continuous growth has been shown each year until, at the close of 1930, 2,465 of these institutions had authority to administer trusts.

A list of national banks holding permits to exercise trust powers on December 31, 1930, will be found on pages 313-337.

CHANGES IN THE BOARD'S REGULATIONS

During the year 1930 the provisions of the board's regulations were amended in a number of particulars. Some of these changes were made in order to bring the terms of the regulations into conformity with the provisions of recent amendments to the law, while other amendments were adopted because experience had proven them to be necessary or desirable.

Regulation A—Discounts under sections 13 and 13 (a).—The board adopted a number of amendments to its Regulation A with regard to rediscounts by Federal reserve banks, in order to make the provisions of the regulation conform to the following recent amendments to the law: (1) The act of May 29, 1928, which authorized the rediscount of sight drafts when drawn to cover the shipment of *nonagricultural*, nonperishable, readily marketable staples, as well as nonperishable, readily marketable staple *agricultural* products, and when

drawn to finance the *exportation* of such staples as well as the *domestic shipment* thereof; (2) the act of June 17, 1929, authorizing the Secretary of the Treasury to issue Treasury bills and providing that the words "bonds and notes of the United States" and similar phrases as used in the Federal reserve act shall be held to include certificates of indebtedness and Treasury bills; (3) the act of April 12, 1930, which amended the law so as to make the limitations upon the amount of eligible paper of one borrower which may be rediscounted by a Federal reserve bank for a member bank conform to the limitations of section 5200 of the Revised Statutes as to the amount which a national bank may lend to a single borrower.

Regulation D—Reserves of member banks.—This regulation was amended so as to provide that in computing penalties for deficiencies in reserves the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balances at the opening of business, instead of the close of business, on the same day. No change, however, was made in the existing practice of computing such deficiencies on the basis of average daily net deposit balances covering semiweekly, weekly, or semimonthly periods.

Regulation F—Trust powers of national banks.—Pursuant to the act of June 26, 1930, providing for the voluntary surrender of fiduciary powers by national banks, the board amended its Regulation F so as to outline the steps which should be taken by a national bank desiring to give up its trust powers and setting forth the requirements of the board before granting a certificate to the bank certifying that it is no longer authorized to exercise such powers.

Regulation H—Membership of State banks and trust companies.—Pursuant to the act of April 17, 1930, providing for the waiving by the Federal Reserve Board of the six months' notice prescribed for State banks voluntarily withdrawing from the Federal reserve system, the board amended its Regulation H by adding a new section on the subject of voluntary withdrawals of State member banks. This amendment consists principally of a paraphrase of the relevant provisions of the law as amended and a statement of the procedure to be followed in cases of voluntary withdrawal of State member banks including cases where the six months' notice is waived.

Regulation I—Federal reserve bank stock.—The board amended its Regulation I so as to prescribe a procedure to be followed in cases arising under the act of Congress of April 23, 1930, which authorized the Comptroller of the Currency to appoint a receiver for a national bank which has discontinued banking operations for 60 days without going into liquidation and for which a receiver has not already been appointed, and which also authorized the Fed-

eral Reserve Board to forfeit the membership of a State member bank which has ceased to exercise banking functions without a receiver or liquidating agent having been appointed. Regulation I was also amended so as to clarify the question as to the amount of Federal reserve bank stock to which a member bank is entitled in a case where it has first reduced its surplus but subsequently has increased it.

Regulation J—Check clearing and collection.—The board adopted a number of amendments modifying or clarifying the provisions of its Regulation J with regard to the collection of checks by Federal reserve banks, the more important changes being in that section of the regulation which prescribes the terms upon which Federal reserve banks will receive and handle such checks for collection.

Regulation K—Banking corporations authorized to do foreign banking business.—The board amended its Regulation K with respect to the requirements as to titles of corporations organized to do a foreign banking business under the terms of section 25 (a) of the Federal reserve act. The regulation prior to the amendment required that the title of every such corporation include the word "foreign" or the word "international" and should not include the word "bank." As amended, however, an exception is made to this requirement by providing that with the permission of the Federal Reserve Board a corporation which is closely affiliated with a bank and which is organized or operated for the purpose of transacting the foreign banking business of such bank may include the word "bank" in its corporate title and need not include the word "foreign" or the word "international."

Regulation L—Interlocking bank directorates under the Clayton Act.—This regulation was amended so as to bring its provisions into conformity with the act of March 2, 1929, exempting from the provisions of the Clayton Act joint-stock land banks and other banking institutions which do no commercial banking business.

The complete text of the Federal Reserve Board's Regulations A to L, as they existed on December 31, 1930, will be found on pages 232-272.

AMENDMENTS TO THE FEDERAL RESERVE ACT

Amendments to a number of the provisions of the Federal reserve act were enacted during the year 1930.

Limitations upon rediscounts for one borrower.—By act of Congress approved April 12, 1930, section 13 of the Federal reserve act was amended so as to make the limitations therein on the amount of eligible paper of any one borrower which may be rediscounted by a Federal reserve bank for a member bank conform to the limitations of section 5200 of the Revised Statutes as amended with regard to the amount which a national bank may lend to a single borrower,

Waiver of notice of withdrawal.—By act of Congress approved April 17, 1930, section 9 of the Federal reserve act was amended so as to authorize the Federal Reserve Board, in its discretion and subject to such conditions as it may prescribe, in individual cases to waive the six months' notice prescribed for State member banks withdrawing from the Federal reserve system and to permit any such bank to withdraw from membership prior to the expiration of six months from the date of such notice.

Banks which have discontinued operations.—By act of Congress approved April 23, 1930, section 6 of the Federal reserve act was amended so as to authorize the Comptroller of the Currency to appoint a receiver for a national bank which has discontinued its banking operations for 60 days, but which has not gone into liquidation and for which a receiver has not already been appointed for other lawful cause; and it is further provided that the stock held by the national bank in the Federal reserve bank shall thereupon be canceled and proper refund made. By the same act of Congress section 9 of the Federal reserve act was amended so as to authorize the Federal Reserve Board, after hearing, to forfeit the membership of a State member bank of the Federal reserve system which has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor.

Costs of examination of member banks.—By act of Congress approved June 26, 1930, section 9 of the Federal reserve act and section 5240 of the United States Revised Statutes, as amended by section 21 of the Federal reserve act, were amended so as to enable the Federal Reserve Board in its discretion to decide whether the costs of examinations of member banks of the Federal reserve system made by the Federal Reserve Board or by the Federal reserve banks should be assessed against the banks examined. The previous law had required that the costs of all such examinations be assessed against the banks examined. It is also provided under the law as amended that copies of reports of examinations of State member banks may, in the discretion of the Federal Reserve Board, be furnished to the State banking authorities.

Voluntary surrender of trust powers.—By act of Congress approved June 26, 1930, a procedure is provided whereby a national bank which has been authorized to exercise fiduciary powers, pursuant to the provisions of section 11 (k) of the Federal reserve act, may surrender those powers if it so desires, in order to relieve itself from the necessity for a further compliance with the requirements of that section or to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts or for any other purpose. Under the law as amended, when a national bank has signified to the Federal Reserve

Board a desire to surrender its trust powers the board is authorized in its discretion to issue a certificate that the bank no longer has authority to exercise fiduciary powers, and it is specifically provided that upon the issuance of this certificate the bank is entitled, among other things, to have returned to it any securities which it may have deposited with the State authorities for the protection of private or court trusts.

Election of Federal reserve bank directors.—By act of Congress approved June 26, 1930, that part of section 4 of the Federal reserve act providing the method of counting ballots in elections of Class A and Class B directors of Federal reserve banks was amended so as to clarify the meaning of the phrase "electors voting" appearing in the statute. Under the previously existing law it was provided that member banks voting in elections of Class A and Class B directors shall indicate their first, second, and other choices, and if no candidate have a majority of first-choice votes the second-choice votes shall be added to the first-choice votes, and if any candidate then have a majority of the "electors voting" he shall be declared elected; if not, votes for first, second, and other choices shall be added together and the candidate then having the highest number of votes shall be declared elected. In a case where pursuant to the statute it had become necessary to add together the first-choice and second-choice votes and as a result several candidates had a majority of "electors voting," serious doubt arose on the question whether that candidate having the highest number of first and second choice votes combined should be declared elected or whether in such case votes for first, second, and other choices should be added together and the candidate then having the highest number of votes declared elected. To eliminate this doubt, the statute was amended so as to provide that when first and second choice votes have been added together the candidate then having a "majority of the electors voting and the highest number of combined votes" shall be declared elected; if no candidate then have a majority of electors voting and the highest number of combined votes, third-choice votes shall be added in, as provided under the law previously.

ADMINISTRATION OF THE CLAYTON ACT

Pursuant to the provisions of section 8 of the Clayton Antitrust Act, during the year 1930 applications for permits authorizing interlocking bank directorates numbering 416 were received and considered by the Federal Reserve Board. The board also investigated 100 alleged violations of this law which were reported to it

by the Comptroller of the Currency, and required the bank directors involved to comply with the law where it was being violated.

MEETINGS OF FEDERAL ADVISORY COUNCIL

Four meetings of the Federal advisory council were held in Washington during 1930 on the following dates: February 18, May 20, September 16, and November 18.

CONFERENCES HELD BY THE FEDERAL RESERVE BOARD

The Federal Reserve Board, as usual, conferred with the Federal advisory council on the occasion of its meetings during the year.

The governors of the Federal reserve banks and the Federal reserve agents met in Washington on September 24-25 and conferred separately and jointly. At both conferences special sessions were held at which the board was in attendance.

ORGANIZATION, STAFF, AND EXPENDITURES

Roy A. Young, who had held the office of governor of the Federal Reserve Board since October 4, 1927, resigned on September 1, 1930, and on September 2 became governor of the Federal Reserve Bank of Boston.

Edmund Platt, who had been a member of the Federal Reserve Board since June 8, 1920, and its vice governor since July 23, 1920, resigned on September 15, 1930.

On September 16, 1930, Eugene Meyer, of New York, was appointed a member of the Federal Reserve Board to fill the vacancy created by the resignation of Vice Governor Platt, and was designated as governor of the board.

Edward H. Cunningham, a member of the Federal Reserve Board since May 14, 1923, died on November 28, 1930.

The total cost of conducting the work of the board during the year 1930 was \$778,759.94. Two assessments were levied against the Federal reserve banks aggregating \$809,585.34, or less than one-fifth of 1 per cent of their average paid-in capital and surplus for the year.

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

Nineteen hundred and thirty-one was a year of continued depression in business, of reduced employment, and of decline in values. The volume of bank credit decreased continuously during the year, there were many bank failures, and severe disturbances occurred in financial conditions, both here and abroad.

During the first nine months of the year the Federal reserve system pursued a policy of further easing credit conditions through reductions of rates and through open-market operations. In the autumn of the year, when, following upon the suspension of gold payments in England, the system was subjected to heavy withdrawals of gold from abroad and of currency for hoarding in this country, it met these demands freely by discounting paper for member banks and by the purchase of acceptances in the open market.

In the first quarter of 1931 banking conditions, which had been characterized by a large number of suspensions in 1930, showed some improvement, but this improvement was not sustained during the rest of the year. In the late spring the number of bank failures increased, and there was a renewed increase in the withdrawals of cash from banks for hoarding. There was an improvement in conditions for a brief period in July after the announcement on June 20 of the American proposals for a moratorium on intergovernmental debts and reparation payments, but in August the downward movement was resumed, and in September, after the suspension of the gold standard in England, gold exports from the United States were in large volume and withdrawals of currency from the banks were accelerated. Withdrawals of deposits and declines in the value of investment portfolios were accompanied by a large number of bank failures in September and October. Gold exports practically ceased at the end of October, and in the last part of the year there were considerable imports of gold, largely from Japan. After the organization in October of the National Credit Corporation for making loans to banks with sound assets, though these assets be ineligible for discount at the reserve banks, there was a reduction in the number of bank suspensions, and some return flow of currency to the banks, but in December bank failures increased again and were accompanied by renewed withdrawals of currency for hoarding. When Congress convened in December, a bill was introduced for the establishment of a

Reconstruction Finance Corporation with a capital of \$500,000,000 supplied by the United States Treasury and authority to borrow up to \$1,500,000,000. The bill creating the corporation, which is authorized to make loans to banks and other financial institutions and to railroads, was passed by Congress in January and approved by the President on January 22, 1932.

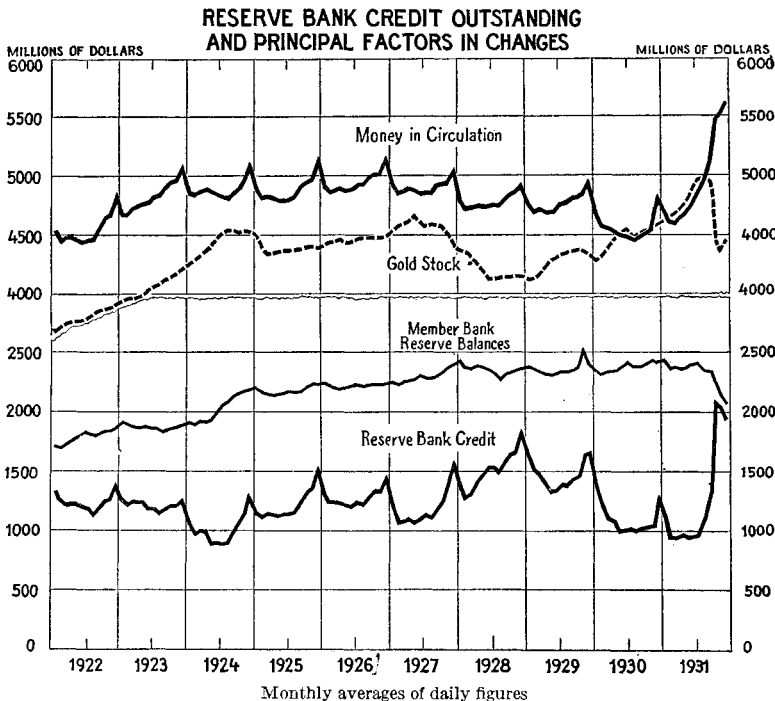
Throughout the year unfavorable developments abroad were an important factor in business and credit conditions in the United States. The European credit crisis, beginning in Austria in April, spread to adjoining countries and resulted in June in a collapse of credit in Germany. Efforts to arrest the spread of this crisis through the extension of outside support to the central banks of Austria, Hungary, and Germany, and through the American proposal for an international moratorium on intergovernmental debts, were unsuccessful, and in July there were heavy withdrawals of foreign balances from England. Foreign credits of \$250,000,000 obtained by the Bank of England and of \$400,000,000 obtained by the British Government were exhausted by the third week in September, and on September 20 the British Government announced the decision to suspend the gold standard in England. This action, and similar action in other countries, caused large gold withdrawals from the United States, accelerated domestic withdrawals of currency for hoarding, and was followed by a rapid contraction of credit in this country.

RESERVE BANK CREDIT

Volume of reserve bank credit, which as a result of gold imports had declined in midsummer to the lowest level since 1924, increased sharply in September and October, as gold and currency withdrawals occurred, and at the end of the year was near the highest level in 10 years. The course of reserve bank credit since 1922 is shown on the chart, in relation to the demand for currency, gold movements, and member bank reserve balances.

Increase in the demand for currency began in November, 1930, when bank failures increased in number, but the resulting demand for reserve bank credit was met until after the middle of 1931 by the use of funds derived from imports of gold from abroad, with the consequence that there was little change in the outstanding volume of reserve bank credit. After that time, however, in September and October, when a large reduction in the monetary gold stock of the country coincided with a further large increase in the demand for currency, the volume of reserve bank credit increased by \$1,000,000,000 within a few weeks. In November and December, however, there was a reduction of more than \$200,000,000, reflecting in part a renewed inflow of gold from abroad, but in larger part a rapid decrease in

member bank reserve balances, which accompanied a further decrease in member bank deposits.



The following table shows on a monthly average basis the changes in reserve bank credit during the first nine months of 1931, in the last three months of the year, and for the year as a whole, in comparison with the changes in gold stock, money in circulation, and member bank reserve balances:

RESERVE BANK CREDIT AND PRINCIPAL FACTORS IN CHANGES

[Monthly averages of daily figures. In millions of dollars]

	December, 1930	September, 1931	December, 1931	Change between—		
				December, 1930, and September, 1931	September, 1931, and December, 1931	December, 1930, and December, 1931
Reserve bank credit.....	1, 273	1, 313	1, 950	+40	+637	+677
Monetary gold stock.....	4, 583	4, 948	4, 450	+365	-498	-133
Money in circulation.....	4, 823	5, 133	5, 611	+310	+478	+788
Member bank reserve balances.....	2, 415	2, 333	2, 069	-82	-264	-346

MEMBER AND NONMEMBER BANK CREDIT

The decrease of member bank reserve balances by \$346,000,000 during the year was the largest decrease in these balances that has taken place in a single year since the Federal reserve system was established. During the first nine months of the year the decrease was gradual, amounting in the aggregate to \$82,000,000, but during the final quarter it became accelerated, the decrease amounting to \$264,000,000 for the period and reflecting the rapid decline in loans and investments of member banks. The decline in bank loans which had begun in the autumn of 1929 continued throughout 1930 and 1931; until the summer of 1931, however, the decline in loans was partly offset in the total volume of bank credit by a growth in the banks' holdings of investment securities. In the third quarter of 1931 banks discontinued their purchases of securities, and in the fourth quarter they began to sell investments, with a consequent increase in the rapidity of liquidation of bank credit and bank deposits.

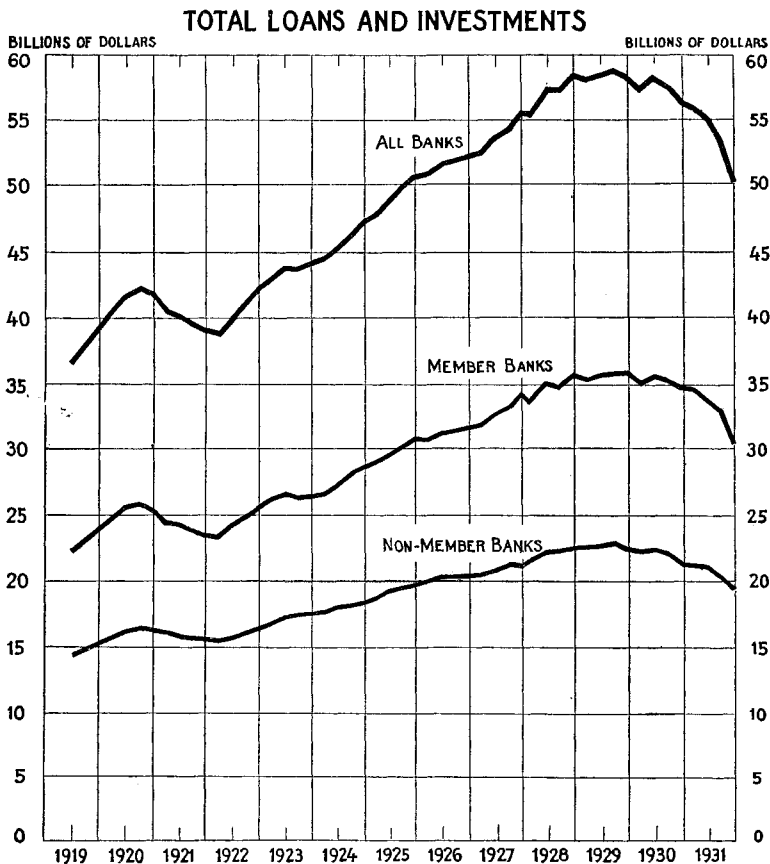
The decrease during the year in member bank deposits subject to reserve requirements approximated \$4,875,000,000, of which \$2,675,000,000 was in net demand deposits and \$2,200,000,000 in time deposits. This decrease reflected chiefly a reduction in member bank loans and investments, a decrease which amounted for the year ending December 31, 1931, to \$4,300,000,000. For nonmember banks the reduction in loans and investments during the year was \$2,200,000,000,* and for all banks, both member and nonmember combined, it was \$6,500,000,000,* or 12* per cent.

The accompanying chart, based on figures for all banks in the United States, shows the course of bank credit since 1919, with separate curves for member banks and nonmember banks. It brings out the fact that, while there was some reduction in bank credit in the last quarter of 1929 and the first quarter of 1930, it was not until the later months of 1930 that the volume of bank credit showed a rapid decline, either for member or for nonmember banks. After the middle of 1930, however, the reduction became pronounced and continuous, and after the middle of 1931 extremely rapid. During the last quarter of 1931 the reduction of \$3,700,000,000,* or 7* per cent, in bank loans and investments was larger than the reduction during the three preceding quarters of the year and about equal in volume to the postwar liquidation of November, 1920–March, 1922. At the end of 1931 loans and investments of all banks in the United States, amounting to \$49,700,000,000,* were about \$9,100,000,000* less than in the autumn of 1929 and at about the same level as in the autumn of 1925.

The reduction of \$9,100,000,000* in bank loans and investments from October 4, 1929, to December 31, 1931, reflected a reduction of

* Revised figures.

\$10,900,000,000^r in bank loans, offset to the extent of \$1,800,000,000^r by an increase in bank investments. The decrease in loans was continuous throughout the period, while the increase in investments reflected the net result of a growth of about \$3,000,000,000 prior



Figures beginning with June, 1920, are for all dates on which member banks made call reports; for earlier period they are for June only

to September, 1931, and a subsequent decrease of more than \$1,200,000,000^r during the final quarter of the year.

MONEY RATES

Continued liquidation of bank loans during the first half of 1931 was accompanied by a further decline in short-term money rates, both in the open market and on loans made by banks directly to their customers. At the beginning of 1931 rates in the open market were already at the lowest levels in more than 20 years, and during the early months of the year they declined further to 2 per cent for commercial

^r Revised figures.

paper, $1\frac{1}{2}$ per cent for call money, seven-eighths of 1 per cent for bankers' acceptances, and less than one-half of 1 per cent on United States Government obligations of short maturity. These levels prevailed through part of May, all of June, July, and August, and most of September, reflecting the combined effects of a limited demand for loans from borrowers of the highest credit rating, the prevalence of excess reserves at the larger and more active member banks, and a low level of indebtedness by member banks at the reserve banks, accompanied by further reductions during the first five months of the year in the discount rates of the Federal reserve banks and in their buying rates for bankers' acceptances. Throughout the summer, therefore, the cost of credit in the short-term money markets for borrowers of acceptable credit standing was low, and the possession of excess reserves by member banks reflected the inactive demand for credit from sources acceptable to the banks and a lack of confidence on the part of the banks in investment securities. These conditions prevailed for somewhat more than four months until the suspension of the gold standard in England on September 20. At that time the demand for gold from abroad and for currency at home absorbed the excess reserves of the member banks and led to a sharp increase in the volume of their borrowings at the reserve banks.

CREDIT POLICY OF THE RESERVE BANKS

The credit policy of the Federal reserve system in the first nine months of 1931 was directed toward the furtherance of easy credit conditions, as indicated by further reductions in rates on discounts and acceptances between January and May and by purchases of United States Government securities between May and September. During the summer reserve bank rates were at the lowest levels that have ever prevailed, the official buying rate on acceptances being at 1 per cent for the principal maturities and the discount rate of the Federal Reserve Bank of New York at $1\frac{1}{2}$ per cent, and at the other reserve banks between 2 and $3\frac{1}{2}$ per cent. After the middle of September, in view of the outflow of gold from the country and of currency into hoarding, the Federal reserve banks increased their rates on discounts and acceptances. The discount rate of the Federal Reserve Bank of New York was advanced by 1 per cent on October 9—from $1\frac{1}{2}$ per cent to $2\frac{1}{2}$ per cent—and on October 16 to $3\frac{1}{2}$ per cent. Buying rates on acceptances for different maturities were advanced by one-fourth of 1 per cent on September 25, and advanced further on October 9, 13, and 16—to the level of $3\frac{1}{8}$ per cent for maturities up to 90 days and $3\frac{1}{4}$ – $3\frac{1}{2}$ per cent for longer maturities. Between October 9 and November 14 discount rates were also advanced at other reserve banks—at Boston from 2 to $3\frac{1}{2}$ per cent, at Philadelphia, Cleveland, Atlanta, and Kansas City from 3 to $3\frac{1}{2}$ per

cent, at Richmond from 3 to 4 per cent, and at Chicago, St. Louis, and San Francisco from $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent. On November 20, when the gold outflow had ceased and the currency demand subsided, buying rates on acceptances of maturities up to 45 days were reduced by one-eighth of 1 per cent. The accompanying table shows the Federal reserve bank rates in effect at the beginning of 1931, during the 4-month period from May 22 to September 24, and at the end of the year.

FEDERAL RESERVE BANK RATES

[Per cent]

	In effect Jan. 1, 1931	In effect during period May 22- Sept. 24, 1931		In effect Dec. 31, 1931	
		Rate	Date es- tablished	Rate	Date es- tab- lished
BUYING RATES ON ACCEPTANCES ¹					
1-15 days.....	$1\frac{3}{4}$	1	May 13	3	Nov. 20
16-45 days.....	$1\frac{3}{4}$	1	May 19	3	Do.
46-90 days.....	$1\frac{3}{4}$	1	do.	$3\frac{1}{8}$	Oct. 16
91-120 days.....	$1\frac{3}{4}$	$1\frac{1}{8}$	May 13	$3\frac{1}{4}$	Do.
121-180 days.....	2	$1\frac{1}{4}$	do.	$3\frac{1}{2}$	Do.
DISCOUNT RATES					
Boston.....	3	2	May 7	$3\frac{1}{2}$	Oct. 17
New York.....	2	$1\frac{1}{2}$	May 8	$3\frac{1}{2}$	Oct. 16
Philadelphia.....	$3\frac{1}{2}$	3	May 7	$3\frac{1}{2}$	Oct. 22
Cleveland.....	3	$2\frac{1}{2}$	May 9	$3\frac{1}{2}$	Oct. 24
Richmond.....	$3\frac{1}{2}$	3	May 15	4	Oct. 20
Atlanta.....	$3\frac{1}{2}$	3	Jan. 10	$3\frac{1}{2}$	Nov. 14
Chicago.....	$3\frac{1}{2}$	$2\frac{1}{2}$	May 9	$3\frac{1}{2}$	Oct. 17
St. Louis.....	$3\frac{1}{2}$	$2\frac{1}{2}$	do.	$3\frac{1}{2}$	Oct. 22
Minneapolis.....	$3\frac{1}{2}$	$3\frac{1}{2}$	(?)	$3\frac{1}{2}$	(?)
Kansas City.....	$3\frac{1}{2}$	3	May 21	$3\frac{1}{2}$	Oct. 23
Dallas.....	$3\frac{1}{2}$	3	May 8	4	Oct. 21
San Francisco.....	$3\frac{1}{2}$	$2\frac{1}{2}$	May 22	$3\frac{1}{2}$	Do.

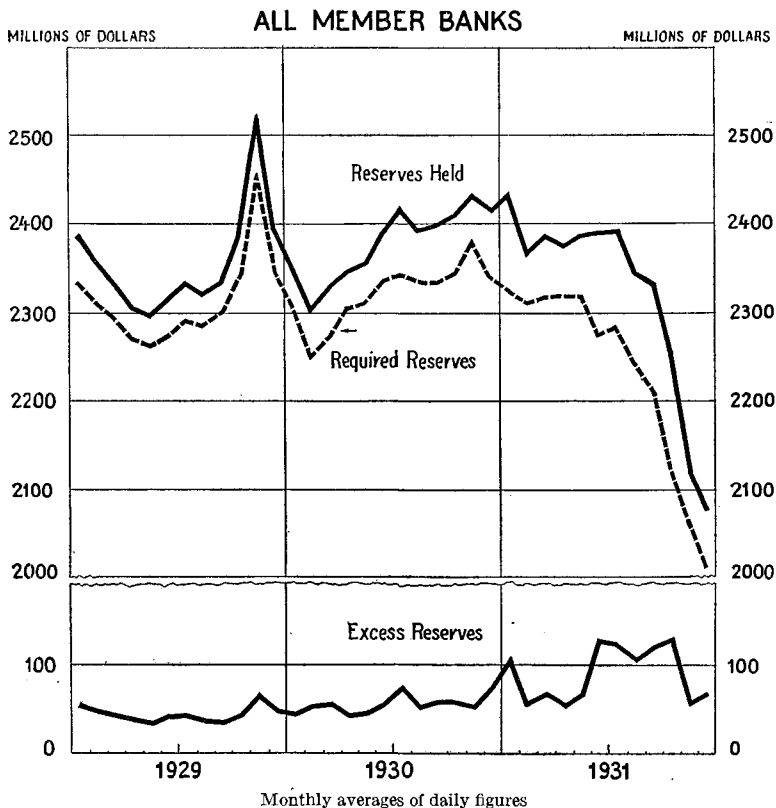
¹ Buying rates at the Federal Reserve Bank of New York.

² Sept. 12, 1930.

EXCESS RESERVES OF MEMBER BANKS

During the first half of the year, as indicated by the chart on page 3, increased currency demand was approximately offset by gold imports, and until June the maintenance of member bank deposits at a fairly constant level was reflected in reserve requirements that remained close to \$2,300,000,000, or about the same as in the middle of 1929. Beginning with June, however, when deposits and reserve requirements decreased, and continuing through the next five months, the banks had excess reserves in considerable volume. These facts are brought out by the chart, which shows for the period 1929-1931 the reserves held by the member banks, the required reserves, and the excess reserves. The increase in excess reserves at the middle of the year, to a level in June and July above \$120,000,000, was due in part to an increase in monetary gold stock that exceeded for the time being the growth in currency demand. An offsetting

influence at that time, which tended to reduce member bank reserve balances, was liquidation of dollar acceptances held in this country by foreign central banks and deposit of the proceeds with the reserve banks. This operation results in a transfer of funds from the market to the reserve banks and tends to increase the demand for reserve bank credit. The transfer of funds from the market to the reserve banks, however, which began in the middle of June, did not result in increasing member bank indebtedness and, therefore, tightening credit

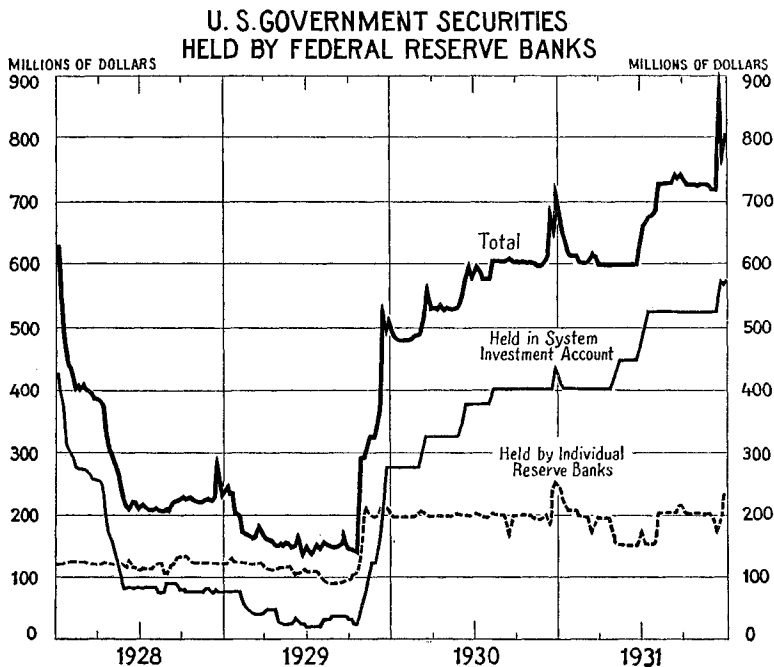


conditions, for the reason that it was offset by the purchase of United States Government securities by the reserve banks.

COMPOSITION OF RESERVE BANK CREDIT

During the period of transfers of funds from the market to the reserve banks by foreign correspondents in June, the reserve banks purchased \$60,000,000 of United States Government securities, and in a similar situation in August they made additional purchases of securities, bringing the total holdings of the system to \$725,000,000. This amount was maintained until near the end of the year, except

for temporary increases at the time of Treasury financing periods in September and December. At the end of 1931 reserve bank holdings of United States Government securities amounted to \$800,000,000 and showed an increase for the year, as measured by monthly average figures, of \$133,000,000, which compares with an increase of \$436,000,000 in bills discounted, \$83,000,000 in acceptances, and \$25,000,000 in other reserve bank credit. The figures are given in the accompanying table, which also shows separately the changes during the first three quarters of the year and during the final quarter. The accompanying



Figures are for Wednesdays; no separate lines are shown for 1-day Treasury certificates or for Government securities bought under resale agreement, both of which are included in the total

chart shows by weeks the course of reserve bank holdings of United States Government securities during the period 1928-1931, with separate curves for United States Government securities held in the "System investment account," through which system policy in respect to open-market operations is chiefly expressed, and those held by individual reserve banks, which usually vary in amount in accordance with adjustments by the individual reserve banks to local or temporary conditions.

10 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

COMPOSITION OF RESERVE BANK CREDIT

[Monthly averages of daily figures. In millions of dollars]

	Decem- ber, 1930	Septem- ber, 1931	Decem- ber, 1931	Change between—		
				Decem- ber, 1930, and Septem- ber, 1931	Septem- ber, 1931, and Decem- ber, 1931	Decem- ber, 1930, and Decem- ber, 1931
Bills discounted.....	338	280	774	-58	+494	+436
Bills bought.....	257	259	340	+2	+81	+83
United States Government securities.....	644	736	777	+92	+41	+133
Other reserve bank credit.....	34	38	59	+4	+21	+25
Total reserve bank credit.....	1,273	1,313	1,950	+40	+637	+677

INTERNATIONAL GOLD MOVEMENTS

The movement of gold to the United States during the first half of 1931 was similar to that which characterized the year 1930. Except for an import of \$20,000,000 of gold from France in April, practically no gold flowed between this country and Europe. The bulk of the imports was from Canada, Latin America, and the Far East, and reflected the continued fall in raw material prices and the pressure of foreign indebtedness. Up to the middle of June about \$230,000,000 was added to the monetary gold stock of the United States.

In the next three months \$190,000,000 more gold was added to United States stock. Although the movement from Canada, Latin America, and the Far East continued, by far the largest receipts during this second period were from Germany. Following the threatened collapse in May of the Credit Anstalt—the largest bank in Austria—confidence in the banking situation in Central Europe was impaired. Early in June the withdrawals of foreign funds from Germany assumed substantial proportions. The Reichsbank lost \$230,000,000 of gold in the first three weeks, in addition to large amounts of foreign exchange. About one-half of this gold was transferred directly or indirectly to the Federal reserve banks.

After the withdrawals from Germany subsided, with the introduction of exchange control in that country, withdrawals of foreign balances from London began on a large scale.

During the first half of 1931 the British gold stock, like that of the United States, had been increasing. There had been a constant flow of gold to England from the mines of the Transvaal, Rhodesia, and West Africa; and a substantial amount in the aggregate had come from South America, the Straits Settlements, and Australia. Early in the year there were losses to France and Belgium; but from the end of January to the middle of July gold reserves of the Bank of England increased by \$120,000,000. In the last two weeks of July the movement was reversed and \$155,000,000 of gold flowed out—

mostly to France, Netherlands, and Belgium. Temporarily the loss of gold was stopped by the purchase of \$125,000,000 of sterling bills by the Federal reserve banks and an advance of \$125,000,000 to the Bank of England by the Bank of France, followed later in August by a credit to the amount of \$400,000,000 granted to the British Government by private interests in France and the United States. These measures were, however, insufficient to meet the continued withdrawal of funds, and on September 21 the Bank of England was relieved by law of its obligation to redeem its notes in gold.

Suspension of the gold standard in England not only tended to immobilize foreign balances still held in London but also to impair confidence in such balances held elsewhere and to cause European banks to convert large portions of their foreign funds into gold. Since a large part of the realizable short-term foreign balances of the world was held in the United States, it was largely upon this country that this movement then concentrated. As a consequence, the United States lost \$725,000,000 of gold from the middle of September to the end of October. About three-fifths of this gold was taken by France, and the bulk of the remainder by Belgium, Switzerland, and Netherlands. These were the countries which previously had been drawing heavily upon the Bank of England's reserves, and which continued to draw gold from the London bullion market when the bank itself ceased to pay out gold. To a considerable extent the movement reflected the desire of the central banks in these countries to increase their metallic reserves with a view to showing a stronger gold position.

In the final two months of 1931 the general movement of the first of the year was resumed, and gold stock in the United States rose as a result of shipments from Canada, Latin America, and the Far East. The flow from these areas had in fact never ceased; but from the middle of September through October the shipments to Europe had been much larger than the receipts from other parts of the world. In November and December, however, exports to Europe practically ceased, while shipments from Japan, which was endeavoring to maintain the gold standard, were in heavy volume. Even after Japan abandoned the gold standard on December 13, Japanese gold continued to arrive at San Francisco. In these two months the monetary gold stock of the United States increased by \$170,000,000.

During 1931 as a whole, the monetary gold stock of the United States decreased by about \$135,000,000. Central gold reserves in Germany declined by \$290,000,000; in England, by \$130,000,000; in Argentina, by \$160,000,000; and in Japan, by \$180,000,000. Meanwhile central gold reserves in France grew by \$600,000,000; and in Switzerland, Netherlands, and Belgium there was an aggregate increase of \$665,000,000.

The reported central gold reserves of the world as a whole showed a net increase for 1931 of about \$335,000,000. If allowance is made for gold in transit between central banks and for gold pledged as collateral for loans and thus temporarily removed from central gold reserves, the figure of the increase during the year is nearer \$450,000,000. This figure compares with \$440,000,000, the output from the world's gold mines, and an additional \$275,000,000 representing the indicated release of gold from private holdings in China, Russia, and India. Probably not more than \$45,000,000 of this total of \$715,000,000 was taken for industrial uses in 1931. The remaining difference between the amount of gold coming from the mines and from private holdings in the East and the amount added to central gold reserves is nearly \$220,000,000, and represents largely gold absorbed in commercial bank and other private holdings during the year—for the most part in European centers at the time of the international financial crisis.

CREDIT AGREEMENTS WITH FOREIGN CENTRAL BANKS

On several occasions during 1931 the Federal Reserve Bank of New York, in association with other Federal reserve banks and with the approval of the Federal Reserve Board, entered into agreements with foreign central banks to purchase from them up to specified amounts prime commercial bills bearing their guarantee of repayment in gold.

Such agreements were made on May 30 with the Austrian National Bank, which at the same time entered into credit agreements with the Bank for International Settlements and 10 European central banks; on June 19 and July 8 with the National Bank of Hungary, which on the same dates entered into agreements with the Bank for International Settlements and a number of European central banks; on June 26 with the Reichsbank, which at the same time entered into agreements with the Bank for International Settlements, the Bank of England, and the Bank of France; and on August 1 with the Bank of England, which at the same time also entered into an agreement with the Bank of France. The Austrian credits, originally aggregating about \$14,070,000, including \$1,083,000 for the Federal reserve banks, were renewed for about seven weeks on August 30, and after reduction by 10 per cent on September 16 were again renewed on October 16 for three months in the amount of \$12,660,000, including \$975,000 for the reserve banks; the Hungarian credits, originally aggregating about \$10,000,000, including \$2,000,000 for the Federal reserve banks, and later increased to about \$21,000,000, including \$5,000,000 for the reserve banks, were renewed for three months on September 18 in the reduced total amount of \$16,800,000,

and renewed again for one month on December 18 in the reduced total amount of \$16,570,000, including in both instances \$4,000,000 for the Federal reserve banks. The Reichsbank credits, which were for \$100,000,000, including \$25,000,000 for the Federal reserve banks, were originally for a period of three weeks, but were renewed on July 16, and again renewed—for three months—on August 6 and November 4. The Bank of England credits, originally for \$250,000,000, including \$125,000,000 for the Federal reserve banks, were renewed for three months on October 31 in the reduced total amount of \$150,000,000, including \$75,000,000 for the Federal reserve banks.

Reserve-bank holdings of bills payable in foreign currencies, which represent largely purchases of bills in accordance with agreements made with foreign central banks, were reduced during the first quarter of the year from \$36,000,000 at the end of December, 1930, to \$1,063,000 at the end of March, 1931. They remained at about this level in April and May. In June they increased to \$10,551,000, in July to \$34,371,000, and in August to \$145,215,000. During September they declined to \$48,804,000 and during October to about \$33,000,000, at which level they remained throughout the rest of the year.

DETAILS OF OPERATION

In the preceding pages there has been presented a brief discussion of business and banking developments in 1931 and of the policies pursued by the Federal reserve system during the year. In the following sections of this report there is given a more detailed account of the operations of the Federal reserve banks and branches and of administrative matters with which the Federal Reserve Board has dealt during 1931.

EARNINGS, EXPENSES, AND VOLUME OF WORK OF THE FEDERAL RESERVE BANKS

Gross earnings of the Federal reserve banks in 1931 amounted to \$29,701,000, or \$6,723,000 less than in 1930, and were lower than in any preceding year since 1917. After deducting current expenses of \$27,040,000—somewhat less than the previous year—and adjustments for depreciation on bank premises, reserves for losses, etc., there remained net earnings of \$2,972,000. Earnings, expenses, dividend payments, etc., for all Federal reserve banks combined for 1931 and 1930 are shown in the following table:

14 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1931 AND 1930

[In thousand of dollars]

	1931	1930
Total earnings.....	29,701	36,424
Current expenses.....	27,040	28,343
Current net earnings.....	2,661	8,081
Additions (profits on sales of United States Government securities, etc).....	3,187	3,475
Deductions (depreciation and other reserves, etc).....	2,876	3,568
Net additions to current net earnings.....	311	-93
Net earnings.....	2,972	7,988
Dividends paid.....	10,030	10,269
Charged to surplus.....	17,058	2,298
Franchise tax paid to United States Government.....		17

¹ Not including a depreciation reserve on United States bonds of \$8,158,000 charged direct to surplus.

The reduction in gross earnings in 1931, notwithstanding an increase of \$194,000,000 in the daily average holdings of bills and securities, was due to the decrease from 3.25 to 2.20 per cent in the average rate of earnings on bills and securities. The average rate of earnings on each class of earning assets showed a substantial decline during the year, the average rate on discounted bills declining from 3.93 per cent in 1930 to 3.01 per cent, on bills bought in the open market from 2.85 to 2.04 per cent, and on United States Government securities from 3.06 to 1.86 per cent. Average daily holdings of discounted bills, bills bought in open market, United States Government securities and other bills and securities, together with average rates and amounts earned on each, are shown for recent years in the following table:

EARNINGS ON BILLS AND SECURITIES

[Amounts in thousands of dollars]

Year	Bills and securities held by all Federal reserve banks				
	Total	Bills discounted	Bills bought in open market	United States Government securities	All other bills and securities
Daily average holdings:					
1927.....	1,124,538	442,287	263,258	417,480	1,513
1928.....	1,467,371	839,942	327,806	297,499	2,124
1929.....	1,413,058	950,580	241,399	207,659	13,420
1930.....	1,056,895	271,727	213,201	563,672	8,295
1931.....	1,251,058	326,217	245,260	669,013	10,568
Average rate of earnings (per cent):					
1927.....	3.60	3.83	3.49	3.41	3.88
1928.....	4.24	4.56	3.97	3.64	4.34
1929.....	4.86	5.03	5.00	3.93	4.94
1930.....	3.25	3.93	2.85	3.06	4.09
1931.....	2.20	3.01	2.04	1.86	2.90
Earnings:					
1927.....	40,482	17,011	9,207	14,206	58
1928.....	62,275	38,334	13,021	10,828	92
1929.....	68,683	47,791	12,064	8,165	663
1930.....	34,365	10,672	6,081	17,273	339
1931.....	27,565	9,821	5,010	12,428	306

Current expenses of the Federal reserve banks in 1931 were \$27,040,000, or \$1,303,000 less than in 1930. Reductions were effected in most of the items of expenditure, the principal reductions occurring in the cost of printing, issuing, and redeeming Federal reserve notes, and in expenditures for salaries, insurance, postage, and assessments for Federal Reserve Board expenses.

The average number of officers and employees decreased from 9,797 in 1930 to 9,426 in 1931, and there was some falling off in the volume of work handled in the principal departments of the banks except in the discount departments, where the volume of work increased materially during the latter part of the year, and in the fiscal agency departments. The volume of work handled in the principal departments of the banks during each of the past four years was as follows:

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS

	1928	1929	1930	1931
NUMBER OF PIECES HANDLED ¹				
Bills discounted:				
Applications.....	123,000	145,000	99,000	113,000
Notes discounted.....	443,000	526,000	415,000	513,000
Bills purchased in open market for own account.....	251,000	196,000	208,000	221,000
Currency received and counted.....	2,270,555,000	2,427,330,000	2,441,989,000	2,269,292,000
Coin received and counted.....	2,929,091,000	3,239,709,000	3,325,555,000	2,900,462,000
Checks handled.....	887,997,000	924,449,000	904,975,000	864,615,000
Collection items handled:				
United States Government coupons paid.....	28,765,000	20,935,000	19,362,000	17,322,000
All other.....	6,461,000	6,504,000	6,388,000	6,927,000
United States Government securities—issues, redemptions, and exchanges by fiscal agency department.....	6,682,000	1,833,000	1,417,000	2,435,000
Transfers of funds.....	2,011,000	2,139,000	1,868,000	1,663,000
AMOUNTS HANDLED				
Bills discounted.....	\$62,412,961,000	\$60,747,124,000	\$14,067,117,000	\$14,555,590,000
Bills purchased in open market for own account.....	4,240,669,000	3,587,478,000	3,873,698,000	2,998,415,000
Currency received and counted.....	13,315,551,000	14,782,429,000	14,262,809,000	12,668,638,000
Coin received and counted.....	451,125,000	478,219,000	537,534,000	585,945,000
Checks handled.....	301,703,814,000	367,215,123,000	324,883,021,000	248,172,956,000
Collection items handled:				
United States Government coupons paid.....	543,373,000	535,612,000	499,111,000	479,960,000
All other.....	7,414,440,000	7,185,384,000	7,528,014,000	7,321,814,000
United States Government securities—issues, redemptions, and exchanges by fiscal agency department.....	9,002,383,000	7,018,844,000	7,245,189,000	17,543,480,000
Transfers of funds.....	148,749,027,000	170,789,669,000	198,880,880,000	162,095,081,000

¹ 2 or more checks, coupons, etc., handled as a single item, are counted as 1 "piece."

None of the Federal reserve banks reported sufficient net earnings to pay accrued dividends in full, and four Federal reserve banks—Boston, Richmond, St. Louis, and Kansas City—reported an excess of expenses over income. Accordingly, dividends of all Federal reserve banks were paid entirely or in part out of surplus. In addition, a reserve for depreciation on United States bonds in the amount of \$8,158,000 was charged direct to surplus account. The surplus of the 12 Federal reserve banks combined after the closing of the books at

16 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

the end of the year amounted to \$259,420,000, a net reduction for the year of \$15,216,000. The total subscribed capital of the Federal reserve banks at the end of 1931 amounted to \$321,000,000, against \$339,280,000 the year before.

Gross and net earnings during the year and the distribution of net earnings of each Federal reserve bank are shown in the following table:

FINANCIAL RESULTS OF OPERATIONS OF THE FEDERAL RESERVE BANKS
DURING 1931

Federal reserve bank	Gross earnings	Net earnings	Dividends paid	Excess of expenses and dividend payments over earnings, charged to surplus	Reserve for depreciation on United States bonds, charged direct to surplus
Boston.....	\$1,800,619	—\$140,230	\$709,139	\$849,369	\$410,783
New York.....	7,555,213	1,532,081	3,891,599	2,359,518	3,138,747
Philadelphia.....	2,714,016	884,172	1,004,836	120,664	458,716
Cleveland.....	3,038,083	78,545	936,513	857,968	473,331
Richmond.....	1,389,086	—156,646	340,360	497,006	133,767
Atlanta.....	1,448,835	-----	313,247	313,247	95,405
Chicago.....	4,143,601	609,895	1,170,633	560,738	964,743
St. Louis.....	1,188,631	—61,263	289,400	350,672	186,470
Minneapolis.....	936,604	45,805	180,455	134,650	653,001
Kansas City.....	1,555,084	—185,486	253,621	439,107	138,274
Dallas.....	1,213,987	111,982	254,878	142,896	1,168,455
San Francisco.....	2,717,520	253,211	683,070	431,859	336,576
Total.....	29,701,279	2,972,066	10,029,760	7,037,694	8,158,268

BUILDING OPERATIONS OF FEDERAL RESERVE BANKS

The building for the use of the Pittsburgh branch, construction of which was begun in 1930, was completed in 1931 and occupied on December 14. The addition to the building of the Federal Reserve Bank of Richmond was also completed during the year. At the end of 1931 all Federal reserve banks were housed in buildings owned by them, as were also all Federal reserve branches except those at Cincinnati, Charlotte, Portland, Seattle, and Spokane.

BRANCHES AND AGENCIES OF FEDERAL RESERVE BANKS

The 25 branches and 2 agencies of the Federal reserve banks which were in operation at the end of 1930 continued to function throughout 1931. As was the case with the system as a whole, the volume of work handled by the branches and agencies in their principal operating departments fell off somewhat in 1931. The following table shows a comparison of the volume of work handled in certain departments during the years 1928, 1929, 1930, and 1931:

VOLUME 1 OF OPERATIONS OF FEDERAL RESERVE BRANCHES AND AGENCIES

	1928	1929	1930	1931
Checks handled:				
Number.....	268,814,000	277,778,000	265,300,000	245,416,000
Amount.....	\$68,273,066,000	\$72,034,805,000	\$62,834,956,000	\$48,079,197,000
Currency received and counted:				
Number of pieces.....	535,352,000	594,449,000	581,697,000	522,933,000
Amount.....	\$2,939,837,000	\$3,259,688,000	\$3,106,716,000	\$2,565,552,000
Coin received and counted:				
Number of pieces.....	453,200,000	466,152,000	572,611,000	503,425,000
Amount.....	\$67,949,000	\$75,846,000	\$84,394,000	\$72,550,000

¹ 2 or more checks, etc., handled as a single item, are counted as one.

Current expenses during 1931 of the branches and agencies amounted to \$5,703,000, as compared with \$5,987,000 during 1930.

CHANGES IN MEMBERSHIP

During the year 1931 the number of member banks decreased from 8,050¹ to 7,246, a net reduction of 804 for the year, as compared with a net reduction of 472 the year before. Membership at the end of 1931 included 6,368 national and 878 State banks, representing decreases of 663 and 141, respectively, for the year. As in other recent years, the decrease in the number of member banks resulted largely from suspensions, mergers between member banks, and absorptions by nonmember banks. The number of nonmember banks decreased during the year by 1,995—from 14,717 at the end of 1930 to 12,722 at the end of 1931.

Additions to membership during the year may be classified as follows: 15 newly organized national banks, 7 nonmember State banks converted into national banks, 23 State banks admitted to membership, and 31 previously suspended member banks that reopened during the year. In addition, 197 nonmember banks were absorbed by member banks, thereby increasing the assets but not the number of member banks.

Mergers between member banks account for a decrease of 209 in the number of such banks in 1931, and suspensions for a decrease of 517 member banks. A total of 125 member banks were lost to membership through conversion into or absorption by nonmember banks, 20 through voluntary withdrawals of State banks from membership, and 9 through voluntary liquidation.

At the end of 1931 member bank loans and investments constituted approximately 77 per cent of the total loans and investments of all commercial banks (i. e., exclusive of mutual savings banks), as compared with 75 per cent a year earlier and 73 per cent at the end of 1929.

Changes in membership for the year 1931 are summarized in the following table:

¹ Exclusive of 2 banks that suspended at end of 1930 but which were included in the comptroller's Dec. 31, 1930, abstract.

18 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

CHANGES IN THE NUMBER OF NATIONAL AND STATE BANK MEMBERS DURING 1931 AND 1930

	1931			Total for 1930
	National	State	Total	
Active member banks at beginning of year.....	17,031	1,019	18,050	8,522
Additions to membership: ²				
Organization of national banks.....	15		15	33
Conversion of nonmember banks to national.....	7		7	35
Admission of State banks.....		23	23	18
Resumptions following suspension.....	25	6	31	7
Conversions within the system.....	1			
Total additions ²	48	29	76	93
Decreases in membership:				
Merger between member banks—				
National and national, or State member and State member.....	151	17	168	158
National and State member.....	26	15	41	41
Voluntary liquidation (terminal).....	8	1	9	4
Suspensions.....	409	108	517	187
Absorption of member banks by nonmember banks.....	98	8	106	103
Conversion of member banks to nonmember banks.....	19		19	25
Withdrawal of State banks.....		20	20	41
Conversions within the system.....		1		
Total decreases.....	711	170	880	565
Net decrease.....	663	141	804	472
Active member banks at end of year.....	6,368	878	7,246	8,050

¹ Exclusive of 2 banks that suspended at end of 1930 but which were included in the comptroller's Dec. 31, 1930, abstract.

² Exclusive of 197 nonmember banks absorbed by member banks in 1931 and 165 in 1930, which increased the assets but not the number of member banks.

³ Includes 2 compulsory withdrawals.

BANK EXAMINATIONS

The board, through its division of examinations, conducted one examination of each Federal reserve bank during the year.

Two banking corporations organized under the provisions of section 25 (a) of the Federal reserve act, generally referred to as the Edge Act, to engage in foreign and international banking business, were examined during the year.

Two banking corporations organized under State law to do a foreign banking business and operating under agreement with the board, as provided in section 25 of the Federal reserve act, were also examined during the year.

BANK SUSPENSIONS

A total of 2,298 banks (and 242 branches operated by 95 of such banks) suspended operations during 1931, with aggregate deposits of \$1,691,510,000, as compared with 1,345 banks in 1930 with deposits of \$864,715,000 and 956 in 1926 with deposits of \$272,488,000, the previous peak years of bank suspensions. Of the 2,298 banks that suspended during the year 1931, 409 were national banks with deposits of \$439,171,000, 108 were State bank members of the Federal reserve system with deposits of \$294,357,000, and 1,781 were nonmember banks with deposits of \$957,982,000. During the year 276 suspended banks with deposits of \$158,187,000 resumed operations, of which 25 with deposits of \$26,182,000 were national banks, and 6 with deposits

of \$27,762,000 were State bank members. The following table shows the number, capital, and deposits of suspended and reopened banks, by years, since 1921:

BANKS SUSPENDED AND REOPENED, 1921-1931

[Capital and deposits in thousands of dollars]

Year	Banks suspended			Banks reopened		
	Number	Capital	Deposits	Number	Capital	Deposits
1921.....	501	22,802	196,460	60	1,918	17,493
1922.....	354	13,743	110,721	65	4,003	35,565
1923.....	648	21,943	188,701	37	1,516	11,674
1924.....	776	28,358	213,338	94	2,815	22,462
1925.....	612	24,441	172,900	62	1,994	16,618
1926.....	956	32,804	272,488	149	5,134	60,610
1927.....	662	24,763	193,891	95	3,906	35,729
1928.....	491	19,715	138,642	39	1,540	15,727
1929.....	642	32,254	234,532	58	3,052	25,829
1930.....	1,345	111,643	864,715	147	6,802	61,599
1931.....	2,298	208,120	1,691,510	276	19,102	158,187

The greatest proportionate increase in bank suspensions in 1931 as compared with previous years was reported for the North Central, Middle Atlantic, and New England States, as may be seen from the following table, which shows the number of bank suspensions, by geographic divisions, in 1931, in 1930, and from 1921 to 1929, together with a yearly average for the latter period:

	Number of bank suspensions			
	1931	1930	1921-1929	
			Yearly average	Total for 9 years
New England States.....	33	13	2	16
Middle Atlantic States.....	250	32	9	82
North Central States.....	611	286	50	449
South Mountain States.....	152	87	21	188
Southeastern States.....	245	276	103	929
Southwestern States.....	174	201	77	694
Western Grain States.....	717	413	291	2,620
Rocky Mountain States.....	62	25	59	534
Pacific Coast States.....	54	12	15	130
Total, United States.....	2,298	1,345	627	5,642

The average size of banks that suspended in 1931 was larger than in any of the previous 10 years, 23.7 per cent of the banks that suspended in 1931 having had a capital stock of \$100,000 or more, compared with 15.8 per cent in 1930 and 9.7 per cent during the 9-year period 1921-1929. The increase in the average size of banks that suspended in 1931 was due chiefly to the fact that a relatively larger number of suspensions was in the larger towns and cities. Percentages of bank suspensions, according to capital of the banks and

20 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

population of the places where the suspensions occurred, are shown in the following table:

BANK SUSPENSIONS, BY SIZE OF BANK AND SIZE OF TOWN

Banks with a capital of—	Per cent of total number of bank suspensions			Banks located in places with population of—	Per cent of total number of bank suspensions		
	1931	1930	1921-1929		1931	1930	1921-1929
\$100,000 and over.....	23.7	15.8	9.7	25,000 and over.....	13.7	9.2	5.2
\$50,000 and over.....	43.6	32.2	27.2	10,000 and over.....	19.5	13.4	8.4
				5,000 and over.....	25.6	17.9	12.6
\$25,000 and over.....	75.5	64.6	59.0	1,000 and over.....	53.5	46.4	39.5
Less than \$25,000.....	24.5	35.4	41.0	Less than 1,000.....	46.5	53.6	60.5

BANK CONSOLIDATIONS

Bank consolidations in 1931 were more numerous than in any previous year, 812 banks having been absorbed by other banks during the year. Of these 812 banks, 315 were members of the Federal reserve system and 497 were nonmember banks. Of the 315 member banks that went out of existence as separate institutions through consolidation, 209 were absorbed by other member banks and their absorption, therefore, did not affect the banking resources in the Federal reserve system. Member banks absorbed by nonmember banks numbered 106, as compared with 197 nonmember banks absorbed by member banks. The total decrease during the year in the number of banks in the United States was 2,803, and the number in operation at the end of the year was 19,966.

Following is a classification of the banks absorbed during 1931 and 1930 through consolidation with other banks:

BANK CONSOLIDATIONS--NUMBER OF BANKS ABSORBED BY OTHER BANKS

	1931	1930
Total number of banks absorbed by other banks.....	812	(1)
National banks absorbed—total.....	275	261
By other national banks.....	151	143
By State bank members.....	26	22
By nonmember banks.....	98	96
State bank members absorbed—total.....	40	47
By other State bank members.....	17	15
By national banks.....	15	19
By nonmember banks.....	8	13
All member banks absorbed—total.....	315	308
By other member banks.....	209	199
By nonmember banks.....	106	109
Nonmember banks absorbed—total.....	497	(1)
By national banks.....	140	² 135
By State bank members.....	57	² 30
By other nonmember banks.....	300	(1)

¹ Complete figures of nonmember banks absorbed are not available.

² Figures for 1930, of nonmember banks absorbed by member banks, are probably somewhat incomplete.

BANKS ON PAR LIST

At the end of 1931 there were 16,427 banks on the Federal reserve par list, which comprises all member banks and such nonmember banks as have agreed to pay, without deduction of exchange charges, such checks drawn upon them as are presented or forwarded for payment by the Federal reserve banks. During the year the number of nonmember banks on the par list decreased by 1,775—largely as the result of the reduction in the number of banks in operation—and the number not on the par list by 230. Of the 3,207 banks not on the par list at the end of 1931, 1,753 were located in the Southern and 1,329 in the West North Central States and the adjoining State of Wisconsin. As will be seen from the following table, all of the banks in the Boston, New York, and Philadelphia districts and all but 6 in the Cleveland district were on the Federal reserve par list:

MEMBERSHIP IN PAR-COLLECTION SYSTEM

[Number of banks at end of December]

	Member banks		Nonmember banks			
			On par list		Not on par list †	
	1931	1930	1931	1930	1931	1930
United States.....	7,246	8,050	9,181	10,956	3,207	3,437
Boston.....	373	396	234	260	-----	-----
New York.....	841	914	340	395	-----	-----
Philadelphia.....	715	753	358	451	-----	-----
Cleveland.....	655	757	792	936	6	9
Richmond.....	403	470	445	523	381	441
Atlanta.....	349	390	150	186	792	862
Chicago.....	903	1,079	2,586	3,200	248	238
St. Louis.....	465	513	1,240	1,404	405	417
Minneapolis.....	579	642	386	497	881	1,007
Kansas City.....	824	871	1,633	1,917	216	191
Dallas.....	617	684	468	572	223	211
San Francisco.....	522	581	549	615	55	61

† Figures cover all incorporated banks (other than mutual savings banks).

‡ Exclusive of 2 banks that suspended at the end of 1930 but which were included in the comptroller's Dec. 31, 1930, abstract.

TRUST ACTIVITIES OF NATIONAL BANKS

The Federal Reserve Board in 1931 approved 41 original and 7 supplementary applications by national banks for permission to exercise fiduciary powers under the provisions of section 11 (k) of the Federal reserve act. Two thousand three hundred and twenty-nine national banks were holding fiduciary permits on December 31, 1931, representing 36.5 per cent of the number of national banks in operation on that date.

Three national banks during the year surrendered their right to exercise trust powers, under the provisions of section 11 (k) of the Federal reserve act as amended June 26, 1930.

A list of national banks holding permits to exercise trust powers on December 31, 1931, will be found on pages 261-284.

CHANGES IN THE BOARD'S REGULATIONS

The only change made by the board during the year in its regulations applicable to member banks was in its regulation G governing the rediscount by Federal reserve banks of notes secured by adjusted service certificates issued under the provisions of the World War adjusted compensation act. Section 502 of this act was amended by act of Congress of February 27, 1931, so as to provide that the loan basis of an adjusted service certificate should at no time be less than 50 per cent of its face value and also that the rate of interest on any such loan should in no event exceed 4½ per cent per annum compounded annually; and on March 2, 1931, the board amended its regulation G so as to conform to the law as thus amended. The complete text of this regulation will be found on page 222.

ADMINISTRATION OF THE CLAYTON ANTITRUST ACT

During the year 1931 the board received and considered the applications of 300 persons for permission to serve at the same time as director, officer, or employee of more than one bank or trust company, in accordance with the provisions of section 8 of the Clayton Antitrust Act. The Comptroller of the Currency reported 662 apparent violations of this law, and where violations were found to exist the persons and banks involved were required to conform to the law.

MEETINGS OF FEDERAL ADVISORY COUNCIL

Four meetings of the Federal advisory council were held in Washington during 1931 on the following dates: February 17, May 19, September 15, and November 17.

CONFERENCES HELD BY THE FEDERAL RESERVE BOARD

The Federal Reserve Board, as usual, conferred with the Federal advisory council at each of its meetings during the year.

The governors of the Federal reserve banks met in Washington on April 27 and on November 30. At both conferences sessions were held at which the board was in attendance.

ORGANIZATION, STAFF, AND EXPENDITURES

Mr. George R. James, of Tennessee, whose term of office as a member of the Federal Reserve Board expired on April 27, 1931, was reappointed by the President for a 10-year term.

Mr. Wayland W. Magee, of Nebraska, was appointed by the President on May 5, 1931, as a member of the Federal Reserve Board, to

fill the vacancy created by the death, on November 28, 1930, of Mr. Edward H. Cunningham.

Mr. Floyd R. Harrison was appointed assistant to the governor of the Federal Reserve Board on September 16, 1931.

Mr. Chester Morrill was appointed secretary of the Federal Reserve Board on October 7, 1931, to fill the vacancy created by the resignation, on May 31, 1931, of Mr. Walter L. Eddy.

The total cost of conducting the work of the board during the year 1931 was approximately \$744,275. Two assessments were levied against the Federal reserve banks, aggregating \$718,552.77, or less than one-sixth of 1 per cent of their average paid-in capital and surplus for the year.

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

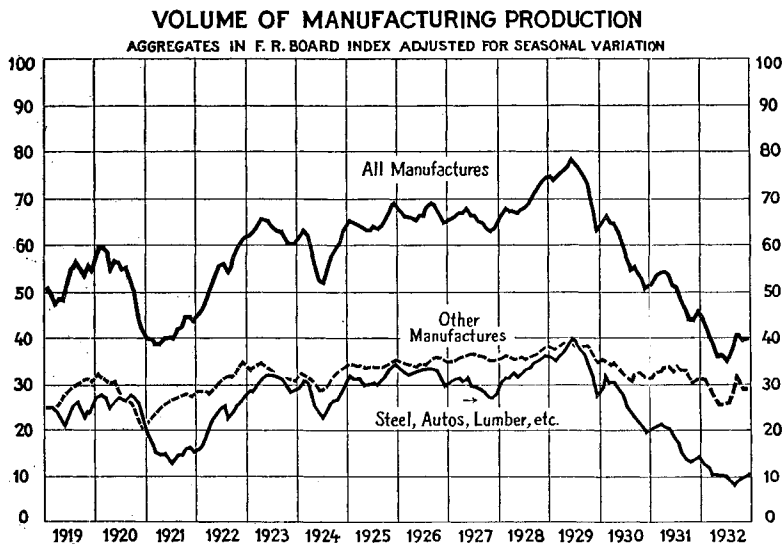
The year 1932, covered by this the Nineteenth Annual Report of the Federal Reserve Board, may be divided into two periods of nearly equal duration—the first extending from the beginning of the year to the middle of July and the second from that time to the end of the year. In the first half of the year the banking system of the country was subjected to pressure through losses of gold to foreign countries and through increased currency withdrawals in the United States. The Federal Reserve banks purchased a large volume of United States Government obligations, and thereby enabled the member banks not only to meet the demands for gold from abroad and for currency at home but also to reduce their indebtedness to the Reserve banks. During the second period, comprising a little less than half the year, there was a reversal of the gold and currency movements, and member banks obtained reserve funds from the gold inflow, from currency returned from hoarding, and to some extent from issues of new national-bank notes. Holdings of United States Government obligations by Reserve banks remained at a constant level, and the funds arising from other sources were for the most part added to the reserve balances of member banks. At the end of the year these balances exceeded by \$575,000,000 the reserve requirements prescribed by law. Member bank credit, which had declined rapidly from the autumn of 1930 to the middle of 1932, continued to decrease during the latter part of the year but at a slower rate. The velocity of bank deposits continued to decline throughout the year. Conditions in the open market for short-term money were relatively easy throughout the year, and in the latter part money rates declined to exceptionally low levels. Rates charged on commercial loans to customers by banks in the financial centers also declined in the last 6 months, but were still relatively high in comparison with open-market rates. Volume of new capital investment was small throughout 1932. Bond prices declined until mid-summer, but were stronger in the latter part of the year.

The operations of the Reconstruction Finance Corporation, which was organized in February, constituted an important factor in the credit situation during the year.

In 1932, as in 1931, developments abroad and the continuance of serious maladjustments and dislocations in international financial and trade conditions were important unfavorable factors in business and credit developments in the United States.

BUSINESS CONDITIONS IN 1932

In 1932, for the third successive year, business activity, prices, and incomes declined substantially, but after the middle of the year there were increases in activity in several important industries, particularly textiles, and the general average of wholesale prices fluctuated around the level reached in June. Throughout the year expenditures for capital equipment, houses, automobiles, and other durable products were in small volume. Domestic distribution of commodities and foreign trade declined further. Flotations of new issues of domestic securities declined sharply, and there was a considerable reduction in

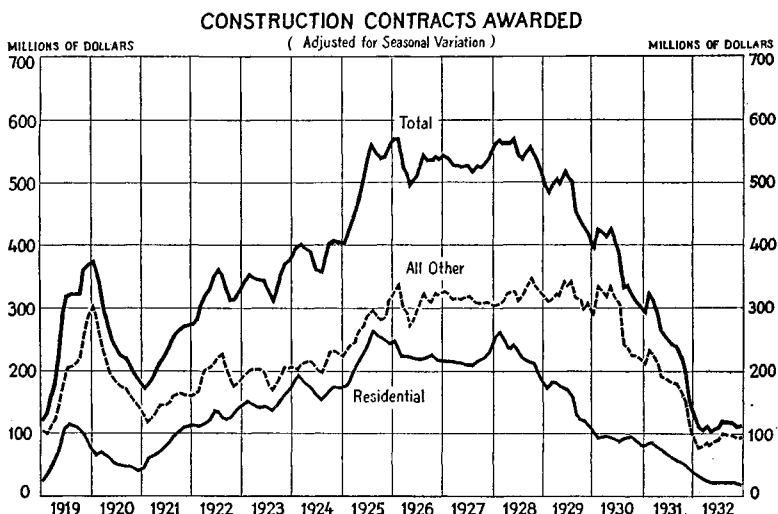


Weighted aggregates in millions. "Steel, autos, lumber, etc.," includes also vessels built, locomotives, nonferrous metals, cement, polished plate glass, and coke. "Other manufactures" includes textiles, leather products, foods, tobacco products, paper and printing, petroleum refining, and automobile tires and tubes.

the volume of issues for refunding purposes. Flotations of foreign securities were in extremely small volume.

First 7 months.—During the first 7 months of 1932 business activity continued to decline rapidly, and there was a further reduction in commodity prices. The volume of industrial production, as measured by the Board's seasonally adjusted index, decreased by one fifth during this period, from 72 in January to 58 in July. At that time industrial activity, including manufacturing and mining, was at less than half the rate prevailing at the peak of activity in June 1929. The course of manufacturing output from 1919 through 1932 is shown by the upper curve on the accompanying chart, which also shows by separate curves the volume of output of durable manufactures, such as steel, automobiles, and lumber, and of nondurable manufactures,

such as textiles and leather products, foods, and tobacco products. As indicated on the chart, the decrease in output of manufactures between the middle of 1929 and the middle of 1932 reflected chiefly the long-continued decline in output of durable goods which had been produced in large volume during the preceding period of industrial prosperity and whose replacement in many cases could be deferred. During the early months of 1932, however, about one half of the decline was in the production of nondurable products, particularly textiles and foods. Output of the heavy industries continued to decline, reflecting in part a further reduction in the volume of construction work undertaken in the latter part of 1931 and early in 1932. The accompanying chart shows for the period 1919-32 the course



Figures are 3-month moving averages, adjusted for usual seasonal variations; data for 1919-April 1924 partly estimated.

of construction contracts awarded, as reported by the F. W. Dodge Corporation, with separate curves for residential building and other construction work.

The continued decline in industrial activity was accompanied by a further decrease in freight traffic, which reached a new low level in midsummer. Dollar volume of department-store sales also declined further, reflecting both price declines and reduction in physical volume.

Accompanying the reductions in output and distribution of commodities, volume of employment continued generally to decrease, with large declines in employment at factories, on railroads, and in the construction industry.

Real-estate values declined in both urban and rural areas, and wholesale commodity prices decreased somewhat further. By June the general level of wholesale prices had declined to 64 percent of

the 1926 average as compared with 69 in December 1931, and retail prices had shown a somewhat smaller decline.

Last 5 months.—The latter part of the year was a period of renewed activity in some industries and of relative stability in others. There were increases in aggregate industrial output, in freight carried by the railroads, in factory employment, and in factory pay rolls. These increases occurred for the most part in August and September, and the higher levels reached at that time were generally maintained during the last quarter.

The increase in industrial output, amounting to 14 percent between July and September, was largely in the production of textiles, leather products, and foods, but in the autumn, when these industries showed some decline in activity, there was a considerable expansion in coal output, and at the end of the year automobile production increased in connection with the introduction of new models. Volume of construction continued at about the low level of the first half of the year, with changes in dollar volume of contracts largely of a seasonal character. Crop production was somewhat smaller than usual, with reduced crops of winter wheat, cotton, tobacco, and fruits, and a large output of feed crops.

Wholesale commodity prices, after reaching a low level in June, increased during July, August, and early September, but later declined by an amount somewhat larger than the previous advance. The increase in wholesale prices during the summer was largely in farm products, foods, hides, and textiles, and the subsequent decline, which was partly seasonal, was also in prices of these commodities, particularly grains and livestock. Prices of cotton and other textile raw materials, which had shown a substantial increase, declined considerably, but at the end of the year were still above the low levels of early summer.

The renewal of activity in the second half of the year was of smaller proportions than the decline during the first half, and the year ended with activity and prices in general at a lower level than in December 1931. Output of nondurable manufactures at the end of the year, however, was at about the same rate as at the end of the two preceding years.

Capital issues.—Flotations of new capital issues, including both stocks and bonds, were smaller in 1932 than in any other recent year. Investment in real estate and construction enterprises also was in small volume.

The extent of the decline in flotations is shown in summary form in the following table;

CAPITAL ISSUES (EXCLUSIVE OF REFUNDING ISSUES)

[Long-term—i.e., 1 year or more. In millions of dollars]

	Domestic			Foreign
	Total ¹	State and municipal	Corporate	
1922-23 average.....	5,079	1,292	3,606	992
1929.....	9,420	1,418	8,002	671
1930.....	6,004	1,434	4,483	905
1931.....	2,860	1,235	1,551	229
1932.....	1,163	761	325	8

¹ Includes issues of Federal land banks and Federal Intermediate credit banks.

New domestic issues amounted to \$1,163,000,000 in 1932, compared with \$2,860,000,000 in 1931, and an average of \$5,079,000,000 in the years 1922-28. As in the 2 preceding years the volume of new corporate issues showed the largest decline, but State and municipal issues, which previously had shown relatively little change, declined considerably after the early months of the year and showed a decrease of about 40 percent for the year as a whole. Corporate issues were in small volume and were practically confined to flotations by public utility companies; foreign security issues were extremely small.

Issues of securities by the United States Government in 1932 were large, the public debt showing an increase of \$2,980,000,000 for the year, compared with an increase of \$1,800,000,000 in 1931, a decrease of \$275,000,000 in 1930, and an average annual decrease of \$955,000,000 for the preceding 10 years. Funds supplied by the United States Government to the Reconstruction Finance Corporation during 1932, as capital of the Corporation and in the form of advances secured by the assets of the Corporation, amounted to approximately 40 percent of the total increase in the public debt.

MEMBER BANK CREDIT

Volume of member bank credit outstanding continued to decline during 1932, rapidly during the first half of the year and less rapidly thereafter, reflecting a further liquidation of loans, partly offset by an increase in investments.

At banks in New York City the liquidation was arrested in the middle of 1932, while at other banks it continued throughout the year. Loans and investments of member banks in New York City decreased by \$745,000,000 in the first half of 1932 and increased by \$612,000,000 in the second half; at member banks outside New York City they decreased by \$1,829,000,000 in the first half of the year and by \$1,143,000,000 in the second half. The accompanying table shows, by classes of loans and by classes of investments, changes in member

6 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

bank credit during each half of the year, with separate figures for member banks in New York City and outside New York City. It brings out the fact that throughout the year member banks, both in New York City and elsewhere, increased their holdings of United States Government securities, while all classes of loans continued to decline except the open-market loans of New York City banks. At New York City banks, holdings of investments other than United States Government securities increased by about \$100,000,000 during the first half of the year and by about \$160,000,000 in the second half, while outside New York member bank holdings of these investments decreased by \$307,000,000 during the first half of the year and by \$221,000,000 during the second half.

ALL MEMBER BANKS—LOANS AND INVESTMENTS

(In millions of dollars)

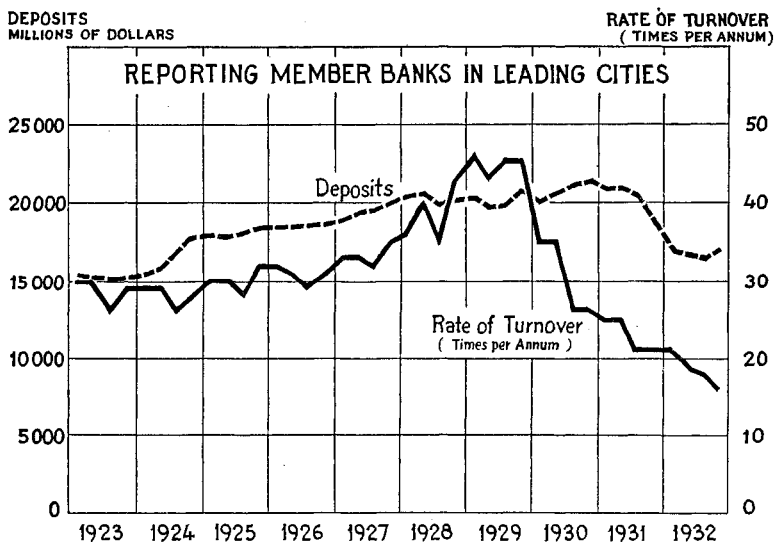
	Dec. 31, 1932		Changes during 1932			
	Member banks in New York City	All other member banks	Member banks in New York City		All other member banks	
			January-June	July-December	January-June	July-December
Loans and Investments.....	7,327	20,142	-745	+612	-1,829	-1,143
Loans.....	3,538	11,666	-1,082	-143	-1,592	-1,240
Loans to banks.....	216	228	-114	-44	-103	-85
Loans to other customers.....	2,621	11,283	-838	-235	-1,465	-1,127
Open-market loans.....	701	154	-130	+136	-24	-28
Investments.....	3,789	8,476	+336	+756	-238	+96
United States Government securities.....	2,603	3,937	+240	+595	+68	+317
Other securities.....	1,186	4,540	+97	+161	-307	-221

Between October 4, 1929, and December 31, 1932, total loans and investments of all member banks decreased by \$8,444,000,000, or 24 percent, of which a part represented the direct effect of member bank suspensions. The entire decrease from 1929 was in loans, including both loans to customers and loans made in the open market, while member bank holdings of investments increased by \$2,516,000,000 during the 3-year period to the highest level on record.

Customers' loans, which represent the larger part of the total volume of bank credit outstanding, showed over the 3-year period the largest reduction in absolute figures of any class of loans, amounting to \$9,344,000,000, or 40 percent. This reduction was due to a large number of influences related to the depressed condition of business and agriculture. It reflected, on the one hand, a reduction in the demand for credit due to a reduced volume of business operations and the reluctance on the part of business to incur indebtedness in view of the uncertainty of business prospects and, on the other hand, the desire on the part of banks to maintain liquidity.

Reduction in open-market loans was smaller in absolute amount than the reduction in customer loans, but larger in proportion, amounting to 62 percent. It represented a decrease in the demand for funds because of the low level of business activity, rather than a shortage in the supply. That open-market funds were available in large volume is indicated by the fact that the rates charged for them declined to the lowest levels on record, ranging at the end of December 1932 from three eighths of 1 percent on prime bankers' acceptances to 1½ percent on open-market commercial paper. The demand, however, was small. The demand for funds for stock-exchange purposes declined to small amounts in keeping with the low level of operations in the securities markets; the volume of open-market commercial paper outstanding also declined by a large percentage; and the decline in bankers' acceptances in the market was substantial, reflecting in part the reduction in the volume of foreign trade.

Velocity of bank credit.—By far the larger part of all payments in the United States is made by check and is reflected in the debits made by banks to the accounts of their depositors. The amount of



Based on estimated figures of debits to individual accounts for reporting member banks in leading cities. Figures of deposits are for net demand plus time deposits of these banks.

these debits, as estimated for the country as a whole from figures currently reported by most of the principal cities, decreased from 1929 to 1932 by more than \$700,000,000,000, or more than 60 percent. During the same period the volume of available means of payment, including both money in the hands of the public outside banks and funds held on deposit in banks, declined by about 23 percent. The decline in payments during the course of the depression, therefore,

has been proportionally nearly three times as large as the decline in the available means of payment.

The velocity of bank deposits, as computed for member banks in leading cities and expressed in terms of the annual rate of turnover, decreased from about 45 in the autumn of 1929 to about 16 in the last quarter of 1932. The decline in velocity of deposits during this period was almost continuous, reflecting a constant decrease in the volume of payments, while the deposits themselves did not begin to decrease appreciably until the middle of 1931 and showed relatively little change after the first quarter of 1932. The difference between the course of deposits and changes in velocity during recent years is shown on the chart, which compares by quarters from 1923 through 1932 the net demand and time deposits held at member banks in leading cities with an estimate of the velocity of these deposits. It brings out the fact that at these cities the rate of turnover continued to decline during the latter part of 1932 while deposits were relatively stable.

BANK SUSPENSIONS AND CURRENCY WITHDRAWALS

During the year 1,456 banks with deposits of \$716,000,000 suspended operations, compared with 2,294 banks having deposits of \$1,691,000,000 in 1931. Nearly one third of the deposits of banks closed during the year were in banks that suspended during the month of January. After the Reconstruction Finance Corporation began operations early in February 1932, and made funds available to banks throughout the country, the number of suspensions decreased rapidly, less than \$15,000,000 in deposits being involved in failures during March as compared with \$219,000,000 in January. In June, however, there were banking difficulties in Chicago and elsewhere, and banks with deposits of \$133,000,000 suspended operations, chiefly in Illinois and Iowa, and there were a number of mergers and reorganizations arising out of banking difficulties. After midsummer failures were less numerous for 4 months, but in December there were many suspensions in some of the Midwestern and Far Western States.

During the year many banks in a number of States closed temporarily under special "banking holidays" declared by civil authorities, and in November a State-wide banking moratorium was declared by the Governor of Nevada. Many other banks, without actual cessation of business, obtained agreements from their depositors for the waiver or deferment of their claims.

Of the 1,456 banks that suspended during the year 1932, somewhat less than one fourth, with about one third of the deposits, were member banks. Of these, 276 were national banks with deposits of \$214,000,000 and 55 were State bank members of the Federal Reserve

System with deposits of \$55,000,000. The other 1,125 suspended banks were nonmember banks with deposits of \$446,000,000. During the year 290 suspended banks with deposits of \$276,000,000 resumed operations. Of these, 44 were national banks with deposits of \$56,000,000 and 8 were State bank members with deposits of \$15,000,000.

During the 3 years 1930-32, there were 5,100 bank suspensions, and deposits of suspended banks totaled \$3,260,000,000. This large number of suspensions reflected the rapid decline, during the course of the depression, in security values, in values of urban and farm real estate held as collateral for bank loans, and in the value of commodities, as well as the reduction in income of the banks' customers and the consequent difficulty of liquidating loans at maturity. Another factor in undermining the position of many banks was the withdrawal of funds by depositors, both for hoarding and for re-deposit in other banks and in the Postal Savings System. In January of 1932 currency withdrawals were general in most parts of the country, but during the remainder of the year they were localized for the most part in districts in which many bank failures occurred. During periods when suspensions were less numerous, from February to May and again in the late summer and the early autumn, there was a return flow of currency to the Federal Reserve banks and the Treasury, and for the year as a whole there was little net change in the amount of currency outstanding.

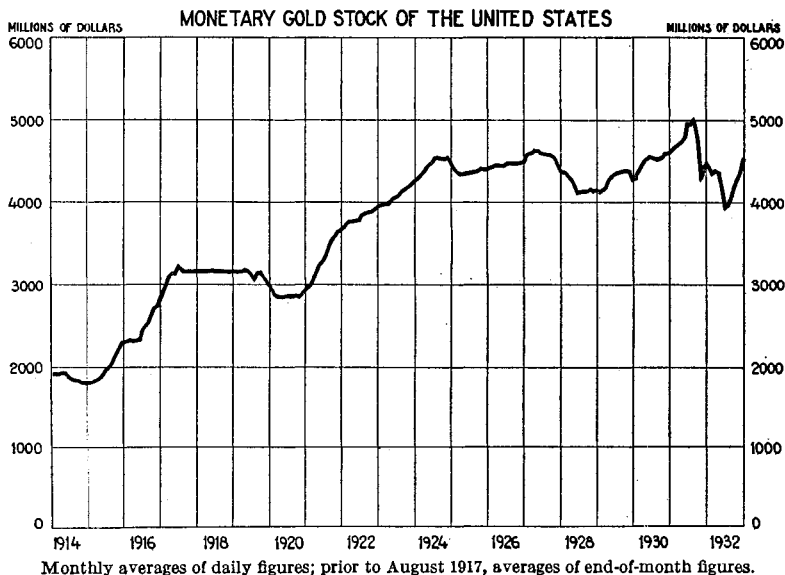
Increase in the demand for currency during recent years, amounting to about \$1,300,000,000 from the middle of 1930 to the middle of 1932, reflected in part the hoarding of currency by the public but was also due to a number of other developments. Absence of banking facilities in many localities owing to the closing of all the banks resulted in an increased demand for cash for the transaction of business; growth in the practice of imposing service charges on small or over-active accounts had a tendency to increase the use of cash; and, finally, the imposition of the tax on checks in July 1932, together with increased postage rates, was an influence toward reduced use of checks and greater use of cash in the payment of bills. All withdrawals of currency, however, though they differed in significance according to their cause, had the same general effect on the position of the member banks and that of the Federal Reserve banks.

GOLD MOVEMENTS

During the first half of 1932 there was a considerable outflow of gold from this country. This outflow followed upon heavy withdrawals in the autumn of 1931, after the suspension of the gold standard in England, and reflected in large part withdrawals of balances by foreign central banks. The outflow was particularly heavy in the 6-week period from the beginning of May to the middle of June. After that

time the direction of the gold movement was reversed and gold imports assumed considerable proportions, so that for the year as a whole there was an increase of \$50,000,000 in the monetary gold stock of this country.

The gold stock of the country reached a high point of \$5,000,000,000 in the autumn of 1931 prior to the departure of England from the gold standard. During the following 8 months \$1,100,000,000 of gold left this country, so that by midsummer of 1932 the stock of gold had declined to \$3,900,000,000. An increase of \$600,000,000 during the second half of the year carried the total to \$4,500,000,000, about \$500,000,000 below the peak of 1931 and at about the level of the average



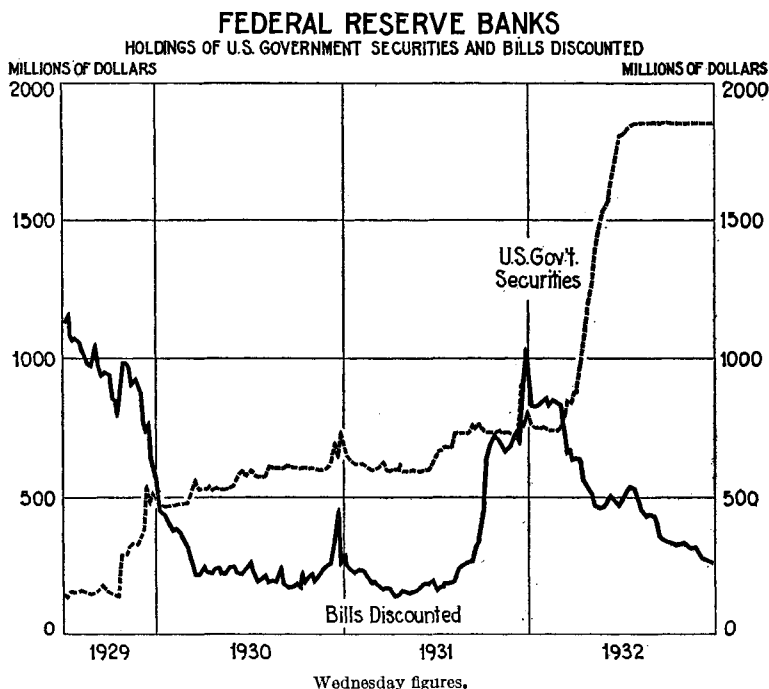
for the years 1926-27. The chart shows the course of monetary gold stock in the United States from 1914, when the Federal Reserve System was established, to the end of 1932.

FEDERAL RESERVE CREDIT POLICY

During 1932 the Federal Reserve System continued to pursue the policy of monetary ease which it had followed since the beginning of the depression. This policy was expressed through the purchase of United States Government securities in the open market and through the reduction of rates charged for discounts and for acceptances. In September 1929 discount rates were 6 percent at the Federal Reserve Bank of New York and 5 percent at the other Reserve banks. By May 1931 these rates had been reduced to 1½ percent in New York, 2 percent in Boston, and 2½ to 3½ percent at the other Reserve banks. In the autumn of 1931, however, when there was a large out-

flow of gold following the suspension of the gold standard in England and a large volume of currency withdrawals in this country, discount rates were advanced to 3½ percent at most Reserve banks and to 4 percent at the Richmond and Dallas banks. During 1932 the rate at the New York and Chicago banks was reduced to 2½ percent and at the other banks it was 3½ percent. Bill rates were gradually reduced during the period and at the end of 1932 were at a 1 percent level, the lowest since the establishment of the System.

System purchases of United States Government securities during 1932 were on a large scale and raised the total System portfolio of



these securities to a new high level. The chart shows holdings of United States Government securities by the Reserve banks and discounts for member banks from the autumn of 1929 to the end of 1932. It shows that United States Government security holdings of the Federal Reserve banks were at a low level in September 1929 and that they increased to \$500,000,000 by the end of that year after the break in the stock market and the subsidence of speculative activity. In 1930 and 1931 the portfolio of such securities gradually increased to \$750,000,000. After the passage of the Glass-Steagall Act on February 27, 1932, the Federal Reserve System pursued a policy of large-scale open-market purchases of United States Government obligations, which carried their total to \$1,850,000,000 on August 10, a level that was maintained throughout the rest of the year.

12 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

Acceptance holdings of the Reserve banks fluctuated in 1929 and 1930 in accordance with usual seasonal tendencies. By the middle of 1931, however, the Reserve banks' bill portfolio had declined to a low level of \$65,000,000. Between that time and the end of October 1931 large purchases of bills were made by the Reserve banks, particularly during the period of heavy gold exports after England's suspension of gold payments. At the end of October the bill portfolio had increased to \$725,000,000. From that level it declined rapidly, reflecting chiefly the fact that abundance of short-time money in the open market resulted in a demand for acceptances by investors, and that open market rates on acceptances were lower than the 1 percent rate at the Reserve banks. During the last quarter of 1932 acceptance holdings of the Reserve banks were about \$32,000,000, representing for the most part bills purchased under agreements with foreign central banks.

Purchases by the Reserve banks in the open market from the autumn of 1929 to the middle of 1932 enabled member banks to reduce their indebtedness, notwithstanding the demand upon them for gold for export and for currency for domestic use. From \$1,000,000,000 at the beginning of September 1929 member-bank discounts declined to \$130,000,000 in April 1931, but increased to \$850,000,000 by February 1932, after a period of heavy withdrawals. Renewed purchases of United States Government securities on a large scale beginning in February 1932 were reflected in a decline of discounts to \$250,000,000 by the end of the year.

Holdings of United States Government securities by the Reserve banks on September 25, 1929, on July 20, 1932, and at the end of 1932, together with related items, are shown in the following table:

BANKING DEVELOPMENTS, 1929-32

[In millions of dollars]

	Sept. 25, 1929	July 20, 1932	Dec. 31, 1932	Changes	
				Sept. 25, 1929 to July 20, 1932	July 20 to Dec. 31, 1932
Reserve bank holdings of United States Government securities.....	152	1,836	1,855	+1,684	+19
Discounts for member banks.....	944	538	235	-406	-303
Gold stock.....	4,375	3,952	4,513	-423	+561
Money in circulation.....	4,744	5,735	5,676	+991	-60
Reserve balances.....	2,364	2,036	2,509	-328	+473
Required ¹	2,293	1,789	1,933	-504	+144
Excess ¹	71	247	576	+176	+329

¹ Partly estimated.

The table shows that during the period of 34 months prior to July 20, 1932, the Reserve banks had bought \$1,684,000,000 of United States Government securities. The funds released by these pur-

chases were largely absorbed, however, by increases of almost a billion dollars in money in circulation and by over 400 millions of gold exports. Nevertheless, member banks, as the result of the System's security purchases and a decrease in their reserve requirements, reflecting a decline in their deposit liabilities, were able by mid-July of 1932 to reduce their discounts by over \$400,000,000 and to accumulate about \$250,000,000 of excess reserves. During this long period, therefore, open-market purchases by the Reserve banks enabled the member banks taken as a whole to meet both external and internal drains on their reserves and at the same time to reduce their indebtedness to the Federal Reserve banks. Indebtedness of member banks to other institutions increased by \$96,000,000 during 1932 and at the end of the year was \$312,000,000, representing chiefly borrowings from the Reconstruction Finance Corporation, as compared with \$251,000,000 on October 4, 1929.

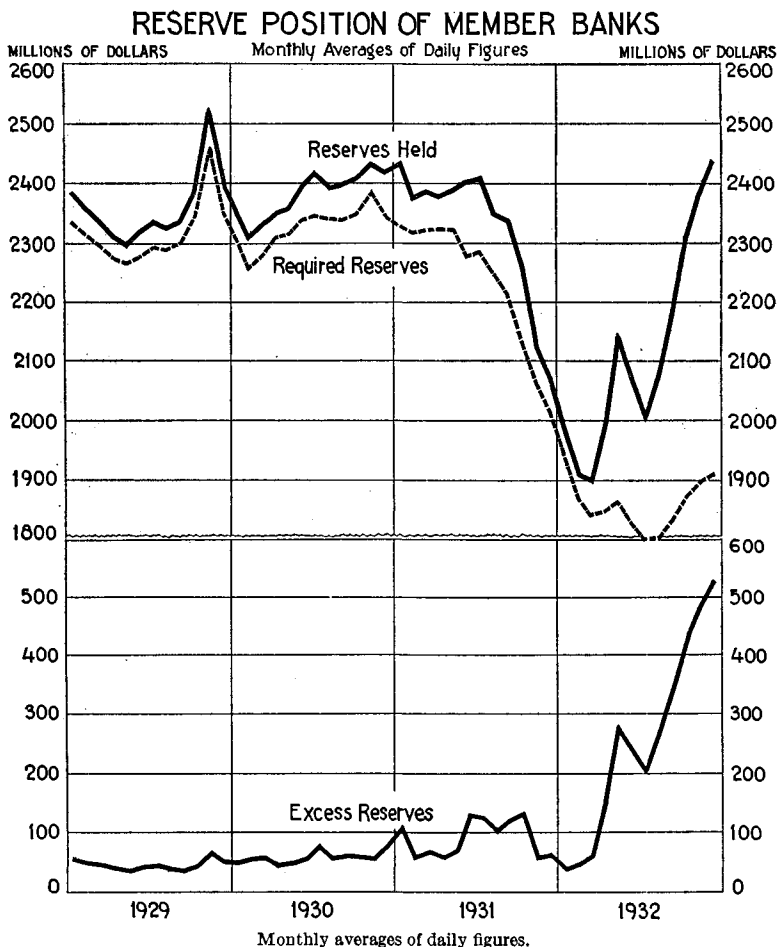
After the middle of July Federal Reserve bank holdings of United States Government securities continued at a practically constant level, but the inflow of gold from abroad, the return flow of money from circulation, and issues of new national-bank notes resulted in a rapid growth of reserve balances at the member banks.

Member bank reserve balances decreased rapidly in the last half of 1931 and the early part of 1932, reflecting chiefly demands on the member banks for gold for export and for additional currency for domestic use. Beginning in March of 1932, however, member bank reserve balances began to increase, and at the end of the year were at a high level—\$575,000,000 in excess of the requirements prescribed by law. The chart on the following page shows for all member banks for the period 1929-32 the course of reserves held, required reserves, and excess reserves.

The increase in reserve balances in 1932 was entirely at banks in financial centers and chiefly at banks in New York City. This does not indicate, however, that the easing effects of open-market purchases by the Reserve banks were confined to the leading cities. United States Government securities were purchased for the most part in New York, the principal market for these securities, and the funds arising from the purchases were in the first instance added to the reserve balances of New York banks. Later, however, these funds were distributed, largely through Treasury disbursements of all kinds, including advances by the Reconstruction Finance Corporation to banks and other institutions throughout the country. Funds acquired in this manner by banks in the interior, not being employed locally, subsequently found their way back to New York and other financial centers through the redeposit of funds by outside banks with their city correspondents. As a result of these movements,

reserve balances of member banks in leading cities increased from December 30, 1931, to December 28, 1932, by \$216,000,000, of which \$162,000,000 was at banks in New York City and \$54,000,000 at banks in other leading cities. During the same period amounts due by these banks to other banks, that is, bankers' balances, increased by \$832,000,000, of which about two thirds was at New York City banks.

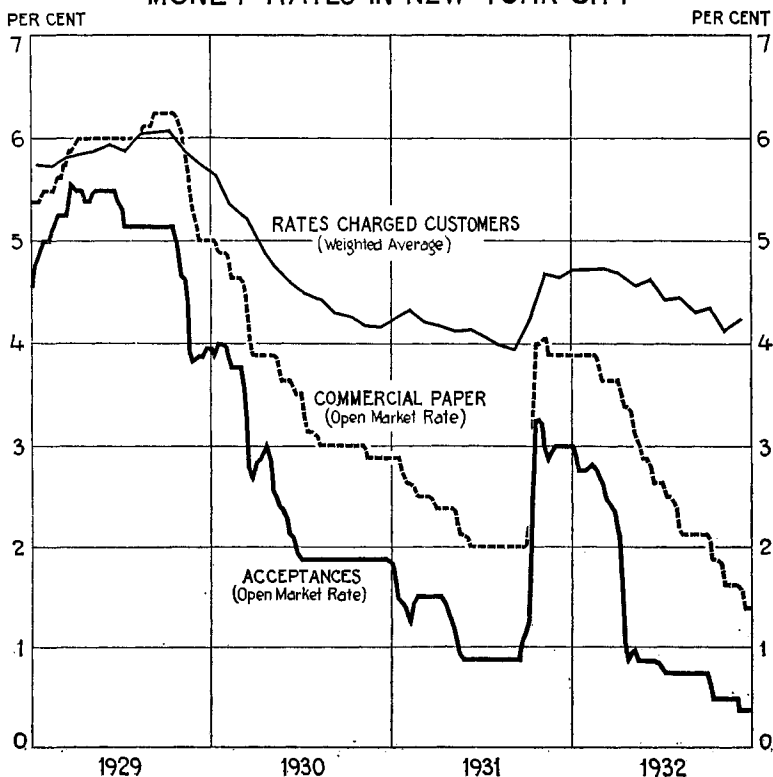
Funds arising from open-market operations by the Reserve banks, therefore, which in the first instance were placed at the disposal of



member banks in financial centers, and chiefly in New York City, were distributed throughout the country through interdistrict movements of funds, chiefly reflecting operations by the Government. Although these funds were largely redeposited in New York and Chicago banks and appeared as excess reserves of these banks, they represented the operating reserves of many country correspondents, maintained subject to withdrawal whenever occasion should arise.

The increase in excess reserves of member banks after February 1932 was accompanied by further easing of the money market. The chart shows the course of money rates in New York City from 1929 to 1932, and brings out the fact that, except for a rise in the autumn of 1931, money rates at New York declined from the autumn of 1929 to the end of 1932, and that this was true not only of open-market rates but also of rates charged by the banks to their customers. Customers' rates also declined in other financial centers. Money rates usually tend to decline during a depression, because the low

MONEY RATES IN NEW YORK CITY



Rates charged customers—weighted average, monthly basis; commercial paper—weekly averages of daily rates on 4-6 months' paper; acceptances—weekly averages of daily rates on 90-day bankers' acceptances.

level of business activity results in diminished demands on the commercial banks for current financing and in an increase in their reserves through the return of currency from circulation. During the depression that began in 1929, however, member banks were under the necessity of meeting foreign demands for gold and domestic demands for currency, both developments which would have tended toward the tightening of conditions in the money market, had it not been for the fact that the Federal Reserve System through purchases of United States Government securities enabled member banks to

meet these demands and at the same time to reduce their indebtedness to the Reserve banks and to build up a considerable volume of reserves in excess of legal requirements. At the end of 1932 short-term money rates were at record low levels, but low rates did not extend to the long-term markets, where yields on long-term issues, except those of the United States Government, continued high and flotations of new capital issues were small.

UNITED STATES GOVERNMENT OBLIGATIONS AS COLLATERAL FOR
FEDERAL RESERVE NOTES

The adoption by the Federal Reserve System in 1932 of the open-market policy discussed elsewhere in this report was made possible by the Glass-Steagall Act of February 27, 1932, which authorized the Federal Reserve Board until March 3, 1933,¹ to permit the use of United States Government obligations as collateral security for Federal Reserve notes. The fact that this authority enabled the Federal Reserve System to pursue its open-market policy makes it appropriate to describe in some detail the provisions of the Federal Reserve Act which are modified by it and the effect that these modifications have on powers of the Federal Reserve System to engage in open-market operations.

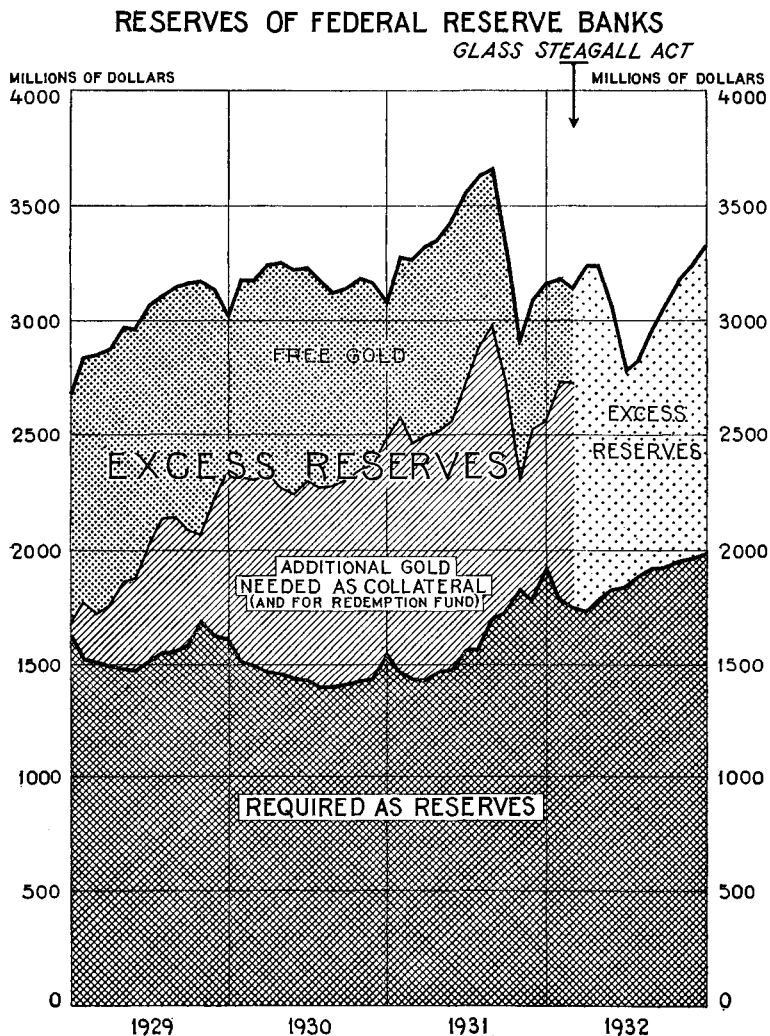
Provisions concerning reserves and collateral.—Under the terms of the Federal Reserve Act the Federal Reserve banks are required to hold a 40 percent reserve in gold against Federal Reserve notes in actual circulation; that is, against Federal Reserve notes paid out by the Federal Reserve banks. Nothing in the Glass-Steagall Act made any change in this requirement. The change related solely to the collateral which a Federal Reserve bank may pledge with the Federal Reserve agent, who is a representative of the Federal Reserve Board, as security for Federal Reserve notes. The Federal Reserve banks must at all times maintain with the Federal Reserve agents collateral to the full amount of the Federal Reserve notes outstanding. Prior to the passage of the Glass-Steagall Act this collateral could consist only of gold and eligible paper. This paper included commercial, agricultural, and industrial paper, and paper secured by United States Government obligations, rediscounted by member banks with the Reserve banks, member bank collateral notes secured by eligible paper or by obligations of the United States Government, and bankers' acceptances purchased by the Reserve banks. Under the terms of the Glass-Steagall Act United States Government obligations purchased by the Reserve banks in the open market also became eligible as collateral.

In addition to the collateral against Federal Reserve notes, the Federal Reserve banks must hold a 5 percent redemption fund in

¹ Later extended to Mar. 3, 1934.

gold with the Treasurer of the United States for such Federal Reserve notes outstanding as are not covered by gold with the Federal Reserve agents, and a 35 percent reserve in gold or lawful money against their deposits.

Excess reserves and free gold.—It is on these provisions of the law that calculations of the Federal Reserve banks' excess reserves



and of their free gold were based. Excess reserves are the total reserves of the Reserve banks less the 40 percent gold reserve against Federal Reserve notes and the 35 percent gold or lawful money reserve against deposits. Collateral requirements do not enter into the

calculations of excess reserves. The term free gold, on the other hand, meant gold held by the Reserve banks that was not required either as reserves or as collateral for Federal Reserve notes.

The position of the Reserve banks in regard to excess reserves and free gold since January 1929 is shown in the chart, which indicates that when section 3 of the Glass-Steagall Act became effective the distinction between excess reserves and free gold lost its significance.

On February 24, 1932, the Federal Reserve banks had \$1,392,000,000 of excess reserves, but as they did not have a sufficient amount of eligible paper available as collateral, \$930,000,000 of these excess reserves in the form of gold had to be pledged as collateral against Federal Reserve notes, in addition to \$46,000,000 required for the redemption fund, with the consequence that the gold not needed for these purposes amounted to \$416,000,000. This amount could have been increased somewhat by reducing the volume of Federal Reserve notes held by the Federal Reserve banks in their own vaults, but, even after that volume was reduced to the minimum required as an operating matter, the free gold would have been \$542,000,000. This situation arose out of the fact that during the preceding year there had been a large demand for currency by the public, in addition to a large export of gold, both of which have exerted a heavy pressure on member banks. In order to assist these banks in meeting the demands upon them without increasing unduly their indebtedness to the Reserve banks, the Federal Reserve System had purchased a considerable volume of United States Government securities, in addition to amounts purchased earlier during the depression, so that on February 24, 1932, the Reserve banks held \$740,000,000 of United States Government securities. Since these securities were not eligible as collateral against Federal Reserve notes, the Reserve banks were obliged to use a large amount of gold for collateral purposes. Free gold of the Federal Reserve banks could have been increased by the sale of United States Government securities, which would have necessitated additional borrowing by member banks and thus would have brought into the Reserve banks additional paper eligible as collateral for Federal Reserve notes. In the then existing circumstances, however, it was undesirable to cause an increase in the indebtedness of member banks.

The situation was further complicated by the fact that, notwithstanding the large withdrawals of foreign funds which had occurred in the autumn of 1931, foreign central banks still had a large volume of short-term balances in this country, which were subject to withdrawal on demand and which there was reason to believe would be withdrawn in large part in the course of a few months.

Policy made possible by the act.—By the adoption of the Glass-Steagall Act on February 27 the Federal Reserve Board was granted

the power to permit the use of United States Government securities as collateral against Federal Reserve notes until March 3, 1933.² Having received this authority, the Federal Reserve banks were in a position, through the purchase of United States Government securities, to enable the member banks to meet additional demands for currency and gold and at the same time to reduce their indebtedness at the Reserve banks.

United States Government securities were first pledged on May 5, 1932. The largest amount used as collateral at any one time during 1932 was \$682,000,000 on July 6, and the amount so used on December 31, 1932, was \$428,000,000.

ADVANCES TO MEMBER BANKS ON INELIGIBLE PAPER

The Glass-Steagall Act also contained provisions in regard to loans to member banks. Sections 1 and 2 of this act added to the Federal Reserve Act two new sections, sections 10 (a) and 10 (b), under the provisions of which, in unusual circumstances, member banks that are without adequate amounts of eligible and acceptable assets to enable them to obtain sufficient credit accommodations from the Federal Reserve banks, through rediscounting or other methods provided by the Federal Reserve Act, may receive assistance under certain conditions on the basis of other security satisfactory to the Federal Reserve banks. Under section 10 (a), which is permanent legislation, a Federal Reserve bank may make advances upon such security to a group of its member banks for distribution to such bank or banks within the group as are in need of assistance, and under section 10 (b) the Federal Reserve banks were authorized, until March 3, 1933,³ to make advances upon such security to individual member banks having a capital stock of not more than \$5,000,000.⁴ Advances under section 10 (a) may be made only with the consent of five members of the Federal Reserve Board, and the obligations representing such advances are not eligible as collateral security for Federal Reserve notes. No advances under section 10 (a) were made by the Federal Reserve banks in 1932. Advances under section 10 (b), according to the provisions of the act of February 27, 1932, could be made only with the consent of five members of the Federal Reserve Board,⁴ and obligations representing such advances are not eligible as collateral security for Federal Reserve notes. The authority granted by section 10 (b) made it possible for the Federal Reserve banks to extend to a considerable number of member banks in 1932 credit that was urgently needed to tide them over a difficult period and in some instances to

² Later extended to Mar. 3, 1934.

³ Extended to Mar. 3, 1934, by the act of Feb. 3, 1933, and to "such additional period not exceeding 1 year as the President may prescribe" by the act of Mar. 9, 1933.

⁴ This provision was eliminated by the act of Mar. 9, 1933. (See Federal Reserve Bulletin, Mar. 1933, p. 118.)

20 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

prevent suspension. The first advance under section 10 (b) was made on March 30, 1932, and up to the end of 1932 loans aggregating \$33,012,000 had been authorized under this section to 50 member banks, located in seven Federal Reserve districts—Boston, New York, Philadelphia, Cleveland, Atlanta, Dallas, and San Francisco. Of the amount authorized, \$28,965,000 had been advanced and \$14,993,000 had been repaid, leaving a balance outstanding of \$13,972,000 at the end of the year.

LOANS TO INDIVIDUALS, PARTNERSHIPS, AND CORPORATIONS

The Emergency Relief and Construction Act of July 21, 1932, contained an amendment to section 13 of the Federal Reserve Act under which the Federal Reserve Board, in unusual and exigent circumstances and by the affirmative vote of not less than five members, may authorize any Federal Reserve bank, during such periods as the Board may prescribe, to discount for any individual, partnership, or corporation, which is unable to secure adequate credit accommodations from other banking institutions, notes, drafts, and bills of exchange of the kinds and maturities eligible for discount for member banks, when such paper is endorsed and otherwise secured to the satisfaction of the Reserve banks. Pursuant to the authority conferred by this amendment, the Federal Reserve Board authorized all Federal Reserve banks for a period of 6 months, commencing August 1, 1932, to discount eligible paper for individuals, partnerships, and corporations subject to the provisions of the law and certain conditions and limitations prescribed by the Board.⁵

The first loan of this character was made on August 4, 1932, and to the end of the year loans aggregating \$859,000 had been made to 23 individuals, partnerships, or corporations by the Federal Reserve banks of New York, Philadelphia, Atlanta, Minneapolis, and Kansas City, of which \$701,000 was outstanding at the end of the year.

The Board's circular of instructions to the Reserve banks with respect to loans of this character is printed in the appendix.

RECONSTRUCTION FINANCE CORPORATION

An important factor in the banking situation in 1932 was the Reconstruction Finance Corporation, created by the act of January 22. It was established for the purpose of providing emergency facilities for financial institutions and aiding in financing agriculture, industry, and commerce. Its powers were subsequently broadened by the Emergency Relief and Construction Act of July 21, 1932.

The Reconstruction Finance Corporation Act provided that the board of directors of the Corporation should consist of 4 appointive members and 3 ex officio members—the Secretary of the Treasury, or in his absence the Under Secretary; the Governor of the Federal Re-

⁵ On Jan. 23, 1933, the Board extended this authorization to the close of business on July 31, 1933.

serve Board, and the Farm Loan Commissioner. This provision was changed by the act of July 21, 1932, which increased the number of appointive members to six and under the terms of which the Governor of the Federal Reserve Board and the Farm Loan Commissioner were no longer required to serve on the board of the Corporation.

In addition to its capital of \$500,000,000 subscribed by the United States Treasury, the Corporation was originally authorized to obtain other funds up to \$1,500,000,000 by the issue of its own obligations, thereby giving it potential resources of \$2,000,000,000. The Emergency Relief and Construction Act increased the aggregate borrowing power of the Corporation from \$1,500,000,000 to \$3,300,000,000. The Treasury was authorized to purchase and sell any of these obligations which were to mature within 5 years and to be unconditionally guaranteed by the United States Government. All the funds of the Corporation were, in fact, obtained from the Treasury, none of its obligations being offered to the public.

The Corporation was authorized by the original act to make loans to banks, insurance companies, certain classes of agricultural credit institutions, and other specified kinds of financial institutions; and, with the approval of the Interstate Commerce Commission, to make loans to railroads. Provision was made for loans up to \$200,000,000 in the aggregate to receivers or liquidating agents of banks closed or in process of liquidation. In addition, certain funds were allocated to the Secretary of Agriculture, to be used by him for the purpose of making loans to farmers. The loans to be made by the Corporation were required to be adequately secured, and were to be made at rates of interest to be determined by the Corporation. They were to be made for periods not exceeding 3 years, renewable from time to time for periods not exceeding 5 years from the date of the original loan.

The Emergency Relief and Construction Act, extending the Corporation's powers, gave the Corporation authority, under certain conditions, to make available to States and Territories for the relief of distress a total of not to exceed \$300,000,000, these loans to bear interest at 3 percent. It also provided for loans to States and other political bodies or agencies, and to private corporations, for self-liquidating projects of a public or semipublic nature, such as bridges, tunnels, docks, and housing facilities in slum areas. In addition, the Corporation was authorized to make loans for the purpose of financing sales of surplus agricultural products in foreign markets and for the carrying and orderly marketing of agricultural commodities and livestock produced in the United States, and to create in each Federal land bank district a regional agricultural credit corporation with a paid-up capital of not less than \$3,000,000 to be subscribed by the Reconstruction Finance Corporation. The Federal Home Loan Bank Act, which also became effective in July, provided for the allotment of funds of the Corporation up to \$125,000,000 to the Secretary of

the Treasury for subscription to the stock of the Federal home-loan banks.

With its broad powers, and with large resources at its disposal, the Corporation has been an important factor in the general credit situation. During the 11 months of its operations in 1932, the Corporation authorized loans aggregating \$1,938,000,000 and advanced \$1,525,000,000, of which \$300,000,000 was repaid before the end of the year, leaving loans outstanding on December 31, 1932, in the amount of \$1,225,000,000.

Advances to about 5,600 banking institutions, including 535 closed banks in the hands of receivers, were authorized by the Corporation. Of the \$850,000,000 advanced to banks and trust companies, \$250,000,000 had been repaid by the end of the year, leaving about \$600,000,000 outstanding.

The Federal Reserve banks were authorized and directed to act as depositaries, custodians, and fiscal agents for the Reconstruction Finance Corporation in the general performance of its powers conferred by the act. The Corporation was authorized, with the consent of the Federal Reserve banks, to make use of their personnel and facilities in carrying out the provisions of the act. A considerable amount of work was done by the Reserve banks for the Reconstruction Finance Corporation, as is indicated elsewhere in this report.

BANKING AND INDUSTRIAL COMMITTEES

At a meeting of the Federal Reserve Board on May 17, 1932, with the governors of the Federal Reserve banks, the System's open-market policy was reviewed, particularly in the light of the adequacy and availability of credit for commercial, agricultural, and industrial purposes, and it was felt that steps should be taken to enlist the cooperation of bankers and business men in an effort to develop ways and means of making effective use of the funds which were being made available by the open-market operations of the System.

Following this meeting, there was appointed in each Federal Reserve district by the governor of the Federal Reserve bank a committee of business men and bankers, which was designated the Banking and Industrial Committee of the district. Surveys were conducted by these committees in their respective districts, with the view of ascertaining to what extent legitimate credit requirements of commerce, industry, and agriculture were not being supplied on account of a lack of banking facilities or for other reasons, and of acquainting prospective borrowers with possible sources of credit. In cooperation with commercial banks, the Federal Reserve banks, the Reconstruction Finance Corporation, and other financial institutions, the committees were able in many instances to establish contacts between prospective borrowers and appropriate lending agencies.

EXTENSION OF CIRCULATION OF NATIONAL-BANK NOTES

Section 29 of the Federal Home Loan Bank Act of July 22, 1932, extended to all bonds of the United States bearing interest at a rate not in excess of 3½ percent, for a period of 3 years, the circulation privilege previously possessed only by certain limited issues of 2-percent bonds. It has been held by the Attorney General of the United States that the bonds given the circulation privilege by this act lose that privilege at the end of 3 years from the date of the passage of the act, and that notes issued upon the deposit of such bonds must then be retired in an appropriate manner.⁹

On June 30, 1932, there were outstanding \$675,000,000 of 2-percent bonds having the circulation privilege, all of which had been callable at the option of the Treasury since April 1930. The additional bonds to which the act of July 22, 1932, extended this privilege amounted at the time of its passage to about \$3,000,000,000.

Formerly, the limiting factor on national-bank-note circulation was the available amount of Government securities having the circulation privilege, but under the act of July 22, 1932, in view of an additional \$3,000,000,000 of bonds that qualify under the interest rate provision, the limiting factor is in the provision of the National Bank Act that a national bank shall not issue notes in excess of its paid-in capital. On June 30, 1932, the capital of national banks was \$1,570,000,000 and their liability for note circulation, as shown by the records of the Comptroller of the Currency, was \$670,000,000, leaving \$900,000,000 as the maximum amount of additional notes that the national banks could issue under the authority conferred by the act of July 22, 1932. The additional issuing power was held chiefly by the national banks of four Federal Reserve districts—New York, Boston, Chicago, and San Francisco—which together could issue 69 percent of the potential increase in notes.

The note-issue privilege extended by the act of July 22 was utilized by the national banks only to a limited extent during 1932, owing to to the fact that the member banks had a considerable and a growing volume of excess reserves, or idle funds.

The issuance of notes by national banks has no effect upon the public's demand for currency, and consequently the payment of such notes into circulation tends to result in the retirement from circulation of other forms of currency. From June 30 to December 31, 1932, national-bank notes in circulation increased by \$119,000,000; during this same period total money in circulation declined by \$21,000,000, the increase in national-bank notes being more than offset by decreases in Federal Reserve notes and other kinds of currency.

⁹ *Opinion of the Attorney General, Aug. 12, 1932.*

While the issuance of national-bank notes has no effect on the total volume of money in circulation, it provides a method by which a national bank can obtain reserve funds without resorting to the Reserve banks. When a national bank issues bank notes, an equivalent amount of some form of currency is likely to be deposited with a Reserve bank and to be added to the reserve balance of a member bank. The power of national banks to issue additional notes, therefore, has an effect not only on the volume of Federal Reserve currency, but also, and more importantly, on the position of the Federal Reserve banks in relation to the member banks, and on the influence of the Federal Reserve System on the general credit situation.

CREDIT AGREEMENTS WITH FOREIGN CENTRAL BANKS

The agreement of the Federal Reserve Bank of New York and other Federal Reserve banks to purchase from the Bank of England prime commercial bills bearing its endorsement, which had been renewed for a period of 3 months from November 1, 1931, in the reduced amount of \$75,000,000, expired on January 31, 1932, no purchases having been made during the period of the renewal and no further renewal having been requested. The agreements by the Federal Reserve banks and other central banks with the banks of issue of Austria, Hungary, and Germany, described in the Annual Report of the Federal Reserve Board for 1931, were renewed at intervals during 1932 by the creditor banks. The last renewals in 1932 were as follows: On October 17, 1932, the agreement with the Austrian National Bank was renewed to January 16, 1933, in the total amount of \$12,664,000, the Federal Reserve participation being \$975,000; on October 18, 1932, two agreements with the National Bank of Hungary, covering a total of \$16,570,000, with Federal Reserve participation amounting to \$4,000,000, were renewed to January 18, 1933; on December 5, 1932, following repayments during the year aggregating \$14,000,000, the credit of \$100,000,000 to the German Reichsbank was renewed to March 4, 1933, in the reduced amount of \$86,000,000, the Federal Reserve participation being reduced from \$25,000,000 to \$21,500,000. Without exception, the Federal Reserve participation in these various undertakings was in the form of an agreement to purchase prime commercial bills endorsed or guaranteed by the respective debtor banks, and all such agreements provide for ultimate repayment in dollars or in gold.

In addition to credit agreements with central banks, the Federal Reserve banks in 1931 made a demand deposit of \$10,000,000 with the Bank for International Settlements to be employed from time to time in the purchase of bills guaranteed by that bank. At the end of 1932 the amount so invested in bills was \$1,687,000 and the amount on deposit had been reduced to about \$2,501,000.

RECOMMENDATIONS CONCERNING LEGISLATION

Glass bill.—On March 17, 1932, Senator Carter Glass, of Virginia, on the basis of an investigation by a subcommittee of the Senate Committee on Banking and Currency, introduced a bill (S. 4115) proposing many changes in the country's banking laws. This bill was submitted to the Federal Reserve Board for comments and suggestions, and a report on the bill, which represented the unanimous recommendations of the Federal Reserve Board, was presented to the committee by the Governor at a hearing on March 29, together with oral testimony. The report was in the form of a memorandum in which the bill was discussed in detail, section by section, and was accompanied by a letter of transmittal summarizing the Board's comments and recommendations. The full text of the Board's recommendations is published in the appendix. In its letter of transmittal the Board said:

“The Federal Reserve Board is in sympathy with the purpose of the bill to strengthen the supervision of the Federal Reserve System over general credit conditions and to invest the Federal Reserve authorities with certain disciplinary powers in relation to banks that pursue unsafe and unsound policies or abuse the privileges of membership. The Board's recommendations on this subject are incorporated in its proposed revision of sections 3 and 29 of the bill.

“With respect to the section of the bill dealing with open-market operations, the Board calls attention to the fact that there is already in existence an open-market committee on which each of the Federal Reserve banks has representation. This has come about as the result of natural development. The Board believes that it would be inadvisable to disturb this development by crystallizing into law any particular procedure. The Board believes that nothing further is necessary or advisable at this time than an amendment clarifying its power of supervision over open-market operations of the Federal Reserve banks and their relationships with foreign banks, as set out in the Board's memorandum.

“The Board is not in sympathy with the provisions of the bill discriminating against member-bank collateral notes. Experience shows that the particular instrument on which Federal Reserve credit is obtained is not an adequate test of the use to be made by the member bank of the proceeds of the credit and that an attempt to control speculation through restrictions on member-bank collateral notes would not be effective in accomplishing the purpose of this section of the bill. Indeed, it probably would interfere seriously with the convenient and economical operation of the System. In this connection the Federal Reserve Board desires to renew the recommendation made in its annual reports for several years, that the maturity for which advances may be made to member banks on their promissory notes secured by paper which is eligible for discount be increased from 15 to 90 days. Such an amendment would be especially helpful to country banks.

“The Board is of the opinion that the adoption of a system of reserves based on velocity of accounts as well as on their volume, as recommended by the System's committee on reserves,⁷ would be an

important step in strengthening the influence that the Federal Reserve System could exert in the direction of sound credit conditions. The section of the bill dealing with reserves would accentuate rather than reduce the inequalities that have grown up in the distribution of reserves between different classes of member banks. The Board also believes it should not be overlooked that this section of the bill would exert a tightening influence on credit conditions at times when it would be contrary to the public interest.

"The Board is in favor of establishing a liquidating corporation, but proposes to limit the scope of its operations to member banks and suggests a different method of financing it, together with certain changes in the provisions for its administration.

"With respect to affiliates the Board believes that important reforms to be accomplished at the present time are the granting of power to the supervisory authorities to obtain reports and to make examinations of all affiliates of member banks and the prescribing of limitations on the loans that a member bank may make to its affiliates. The Board realizes that many evils have developed through the operation of affiliates connected with member banks, particularly affiliates dealing in securities. The Board's memorandum contains a draft of a provision for the separation of such affiliates after a lapse of 3 years.

"It should be recognized that effective supervision of banking in this country has been seriously hampered by the competition between member and nonmember banks, and that the establishment of a unified system of banking under national supervision is essential to fundamental banking reform."

During his testimony on the bill the Governor of the Federal Reserve Board called attention to the last paragraph of the foregoing statement and stressed the fact that "effective supervision of banking in this country has been seriously affected by competition between member and nonmember banks", and that "competition between the State and national banking systems has resulted in weakening both steadily."

Opinion on constitutionality of legislation providing a unified banking system.—As a result of this testimony and the statement in the Board's letter, the Board was requested to suggest to the committee a constitutional method of creating a unified banking system in this country. An opinion on this question was accordingly prepared by the Board's general counsel and was transmitted to the Committee on Banking and Currency of the Senate in December 1932.

In the opinion the question under consideration was analyzed as follows:

"In view of the circumstances under which this request was made, the history of our banking system, and the provisions of Senate Resolutions No. 71, it appears that, by 'creating a unified banking system', is meant bringing all commercial banking business in the United States into a single banking system subject to effective regulation and supervision by the Federal Government.

"Congress has already created the national banking system and the Federal Reserve System; and the problem is how to achieve uniformity

of corporate powers, regulation and supervision with respect to banks engaged in the commercial banking business and to provide for their safe and effective operation, by eliminating the existing competition between the Federal Government and the 48 States for the privilege of granting charters to banks transacting that type of business.

"Since commercial banking necessarily involves the receipt of deposits subject to withdrawal by check, Congress can achieve that result if it can enact legislation which will have the effect of confining the business of receiving deposits subject to withdrawal by check to national banks, which have uniform powers under the National Bank Act, are subject to effective regulation and supervision by the Federal Government, and are required to be members of the Federal Reserve System.

"The question presented, therefore, is whether, in order to provide for a more effective operation of the national banking system and the Federal Reserve System, Congress has the power under the Constitution to restrict the business of receiving deposits subject to withdrawal by check to national banks."

After considering decisions of the Supreme Court of the United States and reviewing previous attempts of Congress to create a unified banking system, particularly through the enactment of the National Bank Act and the Federal Reserve Act, the conclusion was reached in the opinion that Congress has the power under the Constitution to bring all commercial banking business in the United States into a single banking system subject to effective regulation and supervision by the Federal Government.

Authorities supporting this conclusion were cited and discussed in the light of the history of our banking system and the important national objects sought to be accomplished by Congress through the enactment of the National Bank Act, the Federal Reserve Act, and supplementary legislation. The principal reasons for the conclusion were summarized as follows:

"1. The power to create the national banking system and the Federal Reserve System as useful instrumentalities to aid the Federal Government in the performance of certain important governmental functions includes the power to take such action as Congress may deem necessary to preserve the existence and promote the efficiency of those systems. *McCulloch v. Maryland*, 4 Wheat. 316; *Farmers and Mechanics National Bank v. Dearing*, 91 U.S. 29; *Westfall v. United States*, 274 U.S. 256.

"2. Having provided the country with a national currency through the national banking system and the Federal Reserve System, Congress may constitutionally preserve the full benefits of such currency for the people by appropriate legislation. *Veazie Bank v. Fenno*, 8 Wall. 533; *Legal Tender cases*, 12 Wall. 457.

"3. The existence of a heterogeneous banking structure in which there have been more than 10,000 bank failures during the past 12 years constitutes a burden upon and an obstruction to interstate commerce; and Congress may enact appropriate legislation to correct this condition. *United States v. Ferges*, 250 U.S. 195; *Stafford v. Wallace*, 258 U.S. 495; *Board of Trade v. Olsen*, 262 U.S. 1.

"Any one of these grounds standing alone would be a sufficient constitutional justification for the enactment of legislation restricting the conduct of the commercial banking business to national banks; and, when all three grounds are considered together, there can be no doubt that such legislation would be not only constitutional but also entirely appropriate and in accordance with a proper division of authority between the Federal Government and the States.

"Having the power to confine the commercial banking business to national banks, Congress can exercise that power in any manner which it deems appropriate and adequate for its purposes. It is not necessary that the legislation assume the form of a revenue act or an act to regulate interstate commerce, though either of these means would be appropriate."

The full text of the opinion was published in the Federal Reserve Bulletin for March 1933 and is published in the appendix to this report.

Jurisdiction of suits by and against Federal Reserve banks.—The Federal Reserve Board recommends the enactment of an amendment which would restore to the United States district courts jurisdiction of suits by and against Federal Reserve banks. The Federal courts formerly had jurisdiction of such suits by reason of the fact that Federal Reserve banks are incorporated under an act of Congress; but section 12 of the act of February 13, 1925, provides that no district court of the United States shall have jurisdiction of any action or suit by or against any corporation upon the ground that it was incorporated by or under an act of Congress, except corporations in which the Government of the United States is the owner of more than one half of the capital stock.

It is not believed that Congress had the Federal Reserve banks in mind when this amendment was enacted, but its terms deprive the United States district courts of jurisdiction of all suits by or against Federal Reserve banks, unless a question involving the interpretation of the Constitution of the United States or of some Federal statute is raised by the original pleadings of the plaintiff. The provisions of the Federal Reserve Act or the regulations of the Federal Reserve Board are frequently the grounds upon which Federal Reserve banks defend suits brought against them; but the fact that such questions are raised in the defendant's pleadings is not a ground of jurisdiction in the United States district courts. The Federal Reserve banks are thus forced to defend in the State courts suits which turn upon essentially Federal questions and which result in nationally important interpretations of the Federal Reserve Act.

Unlike national banks, the Federal Reserve banks cannot remove suits brought against them by persons located in other States to the United States district courts on the ground of diversity of citizenship, because the Supreme Court of the United States has held that a Federal corporation is not a citizen of any State, and there is no provision in the Federal Reserve Act similar to that in the National Bank

Act providing that they shall be deemed citizens of the States in which they are located.

The act of February 13, 1925, makes an exception in the case of corporations in which the Government of the United States is the owner of more than one half of the capital stock; and it would seem that the same exception should logically be extended to include Federal Reserve banks, since they act as fiscal agents and as sub-treasuries of the United States and perform many other important functions for the Government. Moreover, in the event of the liquidation of the Federal Reserve banks, all of their surplus, which amounts to nearly twice their paid-in capital stock, would become the property of the United States.

The Federal Reserve Board has recommended in several of its previous annual reports to Congress that the law be amended so as to restore to the Federal courts jurisdiction of suits by and against the Federal Reserve banks and, for the reasons stated, it is hoped that Congress may see fit to enact an amendment for this purpose at an early date.

Exemption of Federal Reserve banks from attachment or garnishment proceedings.—The Federal Reserve Board desires to renew the recommendation, which it has made in previous annual reports to Congress, that the law be amended so as to exempt Federal Reserve banks from attachment or garnishment proceedings before final judgment in any case or proceeding.

The purpose of attachment and garnishment proceedings is to insure to the complainant that he will be able to obtain satisfaction of any judgment which may be finally rendered in his favor; and the credit and financial standing of each Federal Reserve bank is such that no difficulty may be anticipated in obtaining full satisfaction of any judgment which may be rendered by the courts against it.

Under the provisions of section 5242 of the Revised Statutes national banks are exempted from attachment and execution before final judgment in any case or proceeding, and the Board feels that the law should be amended so as to give Federal Reserve banks the same protection in this respect. It is conceivable that, if large amounts of the funds or credits of the Federal Reserve banks should be tied up through attachment or garnishment proceedings, the ability of the Reserve banks to perform their functions might be seriously hampered.

Maturity of advances to member banks on their promissory notes.—In several of its previous annual reports the Board has recommended that the law be amended to increase from 15 to 90 days the maximum maturity of advances which may be made by Federal Reserve banks to member banks on their promissory notes secured by paper which is eligible for rediscount or purchase by Federal Reserve banks; and the Board desires to renew that recommendation.

Under the present law Federal Reserve banks may rediscount for member banks commercial or industrial paper with maturities up to 90 days and agricultural paper with maturities up to 9 months, and may make direct advances to member banks on their promissory notes secured by commercial, industrial, or agricultural paper for periods not exceeding 15 days. An amendment to the law increasing the maximum maturity of advances to member banks on their promissory notes secured by such paper would not, therefore, involve a broadening in the character or class of paper or securities which may be legally acquired by Federal Reserve banks and would not constitute in any respect a departure from the fundamental purposes of the Federal Reserve Act.

There is no difference in principle between the rediscount by a Federal Reserve bank of paper arising out of an agricultural, commercial, or industrial transaction and an advance to a member bank on its promissory note secured by paper arising out of such a transaction. A member bank which has paper of this kind in its portfolio may use it to obtain credit from its Federal Reserve bank by either method. The underlying transaction which is the basis for the credit is the same in either case, and the only difference is one of form.

From a practical standpoint, however, the use of promissory notes secured by collateral as a method of obtaining credit has many advantages over rediscounting, which is troublesome and inconvenient. To obtain any substantial amount of credit through rediscounting, a member bank must offer to the Federal Reserve bank a number of separate notes and bills of varying amounts and of different maturities which do not necessarily correspond to the period for which accommodation is needed; and the amount of discount must be calculated separately for each of these notes or bills. When a member bank borrows on its own promissory note secured by collateral, however, it is only necessary to compute the interest on one note for the full amount of the loan.

It was the practice of banks, prior to the enactment of the Federal Reserve Act, to borrow from their correspondent banks on their own promissory notes secured by collateral. This form of borrowing from Federal Reserve banks was not permitted to member banks by the original Federal Reserve Act; and many of the banks which were members of the System preferred to continue their practice of borrowing from their correspondent banks on their own promissory notes rather than to change their method of borrowing in order to avail themselves of the rediscount facilities of the Federal Reserve System.

By an amendment to the Federal Reserve Act, adopted September 7, 1916, Congress authorized Federal Reserve banks to make direct loans to their member banks on their promissory notes secured by collateral of certain specified classes. This amendment proved of material benefit to member banks which are located in the same cities

with Federal Reserve banks or their branches or in nearby cities, and such banks have made extensive use of the privilege of direct borrowing on their promissory notes; but country banks generally have not availed themselves of this privilege to any great extent because of the inconvenience of renewing their notes every 15 days. The character of business conducted by the larger member banks in financial centers is such that frequently their borrowings are for only a few days at a time; whereas the character of business of country banks, particularly those in the agricultural sections, is such that they frequently need continuous accommodations for periods extending up to 90 days or more. It is obvious that a bank which needs credit for a period of 90 days will find it decidedly unsatisfactory to borrow on its 15-day note, which would have to be renewed five times during the 90-day period.

Because of the inconvenience of rediscounting their customers' paper or borrowing on their own 15-day notes, many country member banks continue to borrow from their city correspondents on their promissory notes for longer periods instead of borrowing from the Federal reserve banks; and it is believed that the amendment recommended would make the Federal Reserve System more useful and attractive to country banks.

EARNINGS AND EXPENSES OF THE FEDERAL RESERVE BANKS

Gross earnings of the Federal Reserve banks in 1932 amounted to \$50,019,000, or \$20,318,000 more than in 1931, and were the largest since 1929. After deducting current expenses of \$26,291,000—some-what less than for the preceding year—reserves for depreciation on bank premises, and reserves for losses, self-insurance, etc., there remained net earnings of \$22,314,000, of which \$9,282,000 was paid to member banks as dividends, \$11,021,000 was transferred to surplus, and \$2,011,000 was paid to the United States Government as a franchise tax. Earnings, expenses, dividend payments, etc., for all Federal Reserve banks combined for 1932 and 1931 are shown in the following table:

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1932 AND 1931
(In thousands of dollars)

	1932	1931
Total earnings.....	50,019	29,701
Current expenses.....	26,291	27,040
Current net earnings.....	23,728	2,661
Additions (profits on sales of U. S. Government securities, etc.).....	3,884	3,187
Deductions (depreciation and other reserves, etc.).....	5,298	2,876
Net additions to current net earnings.....	-1,414	311
Net earnings.....	22,314	2,972
Dividends paid.....	9,282	10,030
Transferred to surplus.....	11,021	1-7,058
Franchise tax paid U. S. Government.....	2,011	

¹ The amount shown as withdrawn from surplus during 1931 is exclusive of \$8,158,000 charged direct to surplus at the end of 1931 and set aside as depreciation reserve on United States bonds, and the amount shown as transferred to surplus in 1932 is exclusive of the same amount (\$8,158,000) returned direct to surplus before the books were closed at the end of 1932.

Dividends of the Federal Reserve banks of St. Louis and Dallas were paid in part out of net earnings and in part out of surplus. All of the other Federal Reserve banks had sufficient net earnings to pay accrued dividends in full. The Federal Reserve Bank of Chicago paid a franchise tax to the United States Government of \$1,091,513.45, the Federal Reserve Bank of Cleveland of \$832,745.90, and the Federal Reserve Bank of Minneapolis of \$87,158.54.

A reserve of \$8,158,000 for depreciation on United States bonds, which was charged direct to surplus on December 31, 1931, was returned to surplus before the books were closed at the end of 1932. After the books were closed on December 31, 1932, the surplus of the 12 Federal Reserve banks combined amounted to \$278,599,000. All of the net earnings of a Federal Reserve bank, after the payment of dividends, are transferred to its surplus account until the surplus equals 100 percent of subscribed capital, and thereafter 90 percent of such net earnings is paid to the United States Government as a franchise tax and 10 percent is transferred to surplus. At the end of 1932 all Federal Reserve banks except Boston, New York, Philadelphia, and San Francisco had surplus accounts in excess of subscribed capital. The total subscribed capital of the Federal Reserve banks at the end of 1932 was \$302,584,000, compared with \$321,137,000 the year before, of which one half had been paid in.

Gross and net earnings during the year 1932 and the distribution of net earnings of each Federal Reserve bank are shown in the following table:

FINANCIAL RESULTS OF OPERATIONS OF THE FEDERAL RESERVE BANKS DURING
1932

Federal Reserve bank	Gross earnings	Net earnings	Dividends paid	Transferred to surplus ¹	Franchise tax
Boston.....	\$2,774,303	\$686,639	\$675,511	\$11,128	-----
New York.....	15,948,943	10,404,550	3,562,030	6,842,520	-----
Philadelphia.....	5,001,098	3,270,835	973,393	2,297,442	-----
Cleveland.....	5,128,554	1,871,256	858,427	180,083	\$832,746
Richmond.....	1,871,123	314,490	314,490	-----	-----
Atlanta.....	2,003,196	292,545	292,545	-----	-----
Chicago.....	5,613,671	2,242,725	1,029,933	121,279	1,091,513
St. Louis.....	1,625,432	243,485	268,505	-25,020	-----
Minneapolis.....	1,435,093	272,338	175,495	9,684	87,159
Kansas City.....	2,021,468	245,356	245,356	-----	-----
Dallas.....	1,307,246	163,915	237,970	-74,055	-----
San Francisco.....	5,288,690	2,306,110	648,589	1,657,521	-----
Total.....	50,018,817	22,314,244	9,282,244	11,020,582	2,011,418

¹ Exclusive of \$8,158,268 returned to surplus before the books were closed at the end of 1932, which amount had been charged direct to surplus at the end of 1931 and set aside as a depreciation reserve on United States bonds.

The increase in gross earnings of the Federal Reserve banks in 1932 was due to an increase of \$811,000,000 in the daily average holdings of bills and securities, together with an increase in the average rate of earnings from 2.20 percent to 2.33 percent. Average daily holdings of bills and securities, together with average rates and amounts of earnings thereon, are shown for recent years in the following table:

EARNINGS ON BILLS AND SECURITIES

[Amounts in thousands of dollars]

Year	Bills and securities held by all Federal Reserve banks				
	Total	Bills discounted	Bills bought in open market	United States Government securities	All other bills and securities
Daily average holdings:					
1929.....	1,413,058	950,580	241,399	207,659	13,420
1930.....	1,056,895	271,727	213,201	563,672	8,295
1931.....	1,251,058	326,217	245,260	669,013	10,568
1932.....	2,062,446	520,637	70,902	1,461,258	9,649
Average rate of earnings (percent):					
1929.....	4.86	5.03	5.00	3.93	4.94
1930.....	3.25	3.93	2.85	3.06	4.09
1931.....	2.20	3.01	2.04	1.86	2.90
1932.....	2.33	3.43	3.93	1.84	4.17
Earnings:					
1929.....	68,683	47,791	12,064	8,165	663
1930.....	34,365	10,672	6,081	17,273	339
1931.....	27,565	9,821	5,010	12,428	306
1932.....	47,992	17,881	2,785	26,924	402

Current expenses of the Federal Reserve banks in 1932 were \$26,291,000, or \$749,000 less than in 1931. Reductions were reported in the cost of printing Federal Reserve notes, and in expenditures for salaries, insurance, telegraph, expressage, printing and stationery, and office and other supplies.

The average number of officers and employees, exclusive of those assigned to the Reconstruction Finance Corporation units, decreased from 9,426 in 1931 to 9,283 in 1932, and there was some falling off in the volume of work handled in the principal operating departments of the banks except in the discount and collection departments, where the volume of work increased somewhat. During the last 6 months of the year the Federal Reserve banks had an average of 734 employees engaged on work for the Reconstruction Finance Corporation, which was established in February 1932. The volume of work handled in

34 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

the principal operating departments of the banks during each of the past 4 years was as follows:

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS

	1929	1930	1931	1932
NUMBER OF PIECES HANDLED ¹				
Bills discounted:				
Applications.....	145,000	196,000	109,000	178,000
Notes discounted.....	526,000	415,000	513,000	779,000
Bills purchased in open market for own account.....	196,000	208,000	221,000	76,000
Currency received and counted.....	2,427,330,000	2,441,989,000	2,269,292,000	2,025,552,000
Coin received and counted.....	3,239,709,000	3,325,555,000	2,900,462,000	2,654,787,000
Checks handled.....	924,449,000	904,975,000	864,615,000	734,538,000
Collection items handled:				
United States Government coupons paid.....	20,935,000	19,362,000	17,322,000	17,710,000
All other.....	6,504,000	6,388,000	6,927,000	7,468,000
United States Government securities—issues, redemptions, and exchanges by fiscal agency department.....	1,833,000	1,417,000	2,435,000	1,961,000
Transfers of funds.....	2,139,000	1,868,000	1,663,000	1,469,000
AMOUNTS HANDLED				
Bills discounted.....	\$60,747,124,000	\$14,067,117,000	\$14,555,590,000	\$18,648,306,000
Bills purchased in open market for own account.....	3,587,478,000	3,873,698,000	2,998,415,000	762,755,000
Currency received and counted.....	14,782,429,000	14,262,809,000	12,668,638,000	10,952,597,000
Coin received and counted.....	478,219,000	537,534,000	585,945,000	360,295,000
Checks handled.....	367,215,123,000	324,883,021,000	248,172,956,000	176,591,791,000
Collection items handled:				
United States Government coupons paid.....	535,612,000	499,111,000	479,960,000	529,086,000
All other.....	7,185,384,000	7,528,014,000	7,321,814,000	5,427,817,000
United States Government securities—issues, redemptions, and exchanges by fiscal agency department.....	7,018,844,000	7,245,189,000	17,543,480,000	19,645,750,000
Transfers of funds.....	170,789,669,000	198,880,880,000	162,095,081,000	116,040,041,000

¹ 2 or more checks, coupons, etc., handled as a single item, are counted as 1 "piece."

² Revised.

BUILDING OPERATIONS OF FEDERAL RESERVE BANKS

Construction of an addition to the building occupied by the Federal Reserve Bank of Philadelphia was begun in September and was under way at the end of the year. At the end of 1932 all Federal Reserve banks were housed in buildings owned by them, as were all Federal Reserve branches except those at Cincinnati, Charlotte, Portland, Seattle, and Spokane.

BRANCHES AND AGENCIES OF FEDERAL RESERVE BANKS

The 25 branches and 2 agencies of the Federal Reserve banks which were in operation at the end of 1931 continued to function throughout 1932. As was the case with the Federal Reserve System as a whole, the volume of work handled by the branches and agencies in their principal operating departments fell off somewhat in 1932. The following table shows a comparison of the volume of work handled in certain departments during the years 1929, 1930, 1931, and 1932:

VOLUME 1 OF OPERATIONS OF FEDERAL RESERVE BRANCHES AND AGENCIES

	1929	1930	1931	1932
Checks handled:				
Number.....	277, 778, 000	265, 300, 000	245, 416, 000	205, 505, 000
Amount.....	\$72, 034, 805, 000	\$62, 834, 956, 000	\$48, 079, 197, 000	\$34, 048, 272, 000
Currency received and counted:				
Number of pieces.....	594, 449, 000	581, 697, 000	522, 933, 000	470, 285, 000
Amount.....	\$3, 259, 688, 000	\$3, 106, 716, 000	\$2, 565, 552, 000	\$2, 222, 943, 000
Coin received and counted:				
Number of pieces.....	466, 152, 000	572, 611, 000	593, 425, 000	574, 622, 000
Amount.....	\$75, 846, 000	\$84, 394, 000	\$72, 550, 000	\$71, 273, 000

¹ 2 or more checks, etc., handled as a single item, are counted as 1 "piece."

Current expenses during 1932 of the branches and agencies amounted to \$5,613,000, as compared with \$5,703,000 during 1931.

CHANGES IN MEMBERSHIP

During the year 1932 the number of member banks decreased from 7,246 to 6,816, a net reduction of 430 as compared with a net reduction of 804 the year before. Membership at the end of 1932 included 6,011 national and 805 State banks, representing decreases of 357 and 73, respectively, for the year.

The decline in the number of member banks was the result largely of the suspension of 331 banks, the absorption of 107 member banks by other member banks, and the absorption of 47 member banks by nonmember banks. These decreases were partly offset by the reopening of 52 member banks that had previously suspended, the organization of 10 new national banks, and the admission of 23 State banks to membership. In the course of the year there were 113 nonmember banks absorbed by member banks.

At the end of December 1932 member bank loans and investments constituted approximately 80 percent of the total loans and investments of all banks, exclusive of mutual savings banks, as compared with 77 percent at the end of 1931 and 73 percent at the end of 1929.

36 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

Changes in membership during the years 1930, 1931, and 1932 are summarized in the following table:

CHANGES IN THE NUMBER OF NATIONAL AND STATE BANK MEMBERS DURING 1932, 1931, AND 1930

	1932			1931	1930
	National	State	Total		
Active member banks at beginning of year.....	6,368	878	7,246	8,050	8,522
Additions to membership: ¹					
Organization of national banks.....	10		10	15	33
Conversions of nonmember banks to national banks.....	3		3	7	35
Admissions of State banks.....		23	23	23	18
Resumptions following suspension.....	44	8	52	31	7
Conversions within the system.....	4				
Total additions ¹	61	31	88	76	93
Decreases in membership:					
Mergers between member banks:					
National and national, or State member and State member.....	81	6	87	168	158
National and State member.....	5	15	20	41	41
Voluntary liquidations.....	10	1	11	9	4
Suspensions.....	276	55	331	517	187
Absorptions of member banks by nonmember banks.....	37	10	47	106	109
Conversions of member banks to nonmember banks.....	9		9	19	25
Withdrawals of State banks.....		13	13	20	41
Conversions within the system.....		4			
Total decreases.....	418	104	518	880	565
Net decrease.....	357	73	430	804	472
Active member banks at end of year.....	6,011	805	6,816	7,246	8,050

¹ Exclusive of 113 nonmember banks absorbed by member banks in 1932, 197 in 1931, and 165 in 1930, which increased the assets but not the number of member banks.

² Exclusive of 2 banks that suspended at end of 1930 but which were included in the Comptroller's Dec. 31, 1930, abstract.

BANK EXAMINATIONS

The Board's division of examinations conducted one examination of each Federal Reserve bank during the year.

Two banking corporations organized to engage in foreign and international banking business, under the provisions of section 25(a) of the Federal Reserve Act, generally referred to as the Edge Act, were examined during the year.

FEDERAL RESERVE INTER-DISTRICT COLLECTION SYSTEM

At the end of 1932 there were 14,930 banks on the Federal Reserve par list, comprising all member banks (6,816) and 8,114 nonmember banks that pay, without deduction of exchange charges, such checks drawn upon them as are presented or forwarded for payment by the Federal Reserve banks. During the year the number of nonmember banks on the par list decreased by 1,067—largely as a result of the reduction in the number of banks in operation—and the number not on the par list by 161. Of the 3,046 banks not on the par list at the end of 1932, 1,593 were located in 11 Southern States and 1,275 in 6 West North Central States and the adjoining State of Wisconsin. As will be seen from the following table, all of the banks in the Boston, New York, and Philadelphia districts, and all but 5 in the Cleveland district were on the Federal Reserve par list:

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD 37

INTERDISTRICT COLLECTION SYSTEM

[Number of banks at end of December]

Federal Reserve district	Member banks		Nonmember banks			
			On par list		Not on par list ¹	
	1932	1931	1932	1931	1932	1931
United States.....	6, 816	7, 246	8, 114	9, 181	3, 046	3, 207
Boston.....	367	373	221	234	-----	-----
New York.....	827	841	333	340	-----	-----
Philadelphia.....	693	715	303	358	-----	-----
Cleveland.....	630	655	764	792	5	6
Richmond.....	392	403	425	445	366	381
Atlanta.....	323	349	134	150	705	792
Chicago.....	792	903	2, 200	2, 686	251	248
St. Louis.....	429	465	1, 112	1, 240	409	405
Minneapolis.....	545	579	322	386	818	881
Kansas City.....	785	824	1, 422	1, 633	224	216
Dallas.....	584	617	421	468	220	223
San Francisco.....	449	522	457	549	48	55

¹ Figures cover all incorporated banks (other than mutual savings banks).

TRUST ACTIVITIES OF NATIONAL BANKS

The Board in 1932 approved 33 original and 15 supplementary applications by national banks for permission to exercise fiduciary powers under the provisions of section 11(k) of the Federal Reserve Act. Two thousand one hundred ninety-two national banks were holding fiduciary permits on December 31, 1932, representing 36 percent of the number of national banks in operation on that date.

Seven national banks during the year 1932 surrendered their right to exercise trust powers under the provisions of section 11(k) of the Federal Reserve Act.

A list of national banks holding permits to exercise trust powers on December 31, 1932, is printed in the appendix.

CHANGES IN THE BOARD'S REGULATIONS

The only change made by the Board during the year in its regulations applicable to member banks was in its regulation G governing the rediscount by Federal Reserve banks of notes secured by adjusted-service certificates issued under the provisions of the World War Adjusted Compensation Act. Section 502 of this act was amended in certain respects by an act of Congress approved July 21, 1932, and under the law as thus amended a loan secured by an adjusted-service certificate may be made at any time after the date of the certificate and the rate of interest on any such loan may not exceed 3½ percent per annum, compounded annually. Prior to this amendment the law had provided that such a loan might be made only after the expiration of 2 years after the date of the certificate securing the loan and at a rate of interest not exceeding 4½ percent per annum, com-

pounded annually. On August 10, 1932, the Board amended its regulation G so as to conform to the law as amended by the act of July 21, 1932. The text of the revised regulation will be found in the appendix.

AMENDMENTS TO THE FEDERAL RESERVE ACT IN 1932

Amendments that were made to the Federal Reserve Act by the Glass-Steagall Act of February 27, 1932, the Emergency Relief and Construction Act of July 21, 1932, have been discussed elsewhere in this report. In addition to these, there were a number of other amendments to the Federal Reserve Act during the year.

Exceptions to limitation on indebtedness of a national bank.—Section 5202 of the Revised Statutes of the United States, which is included with certain amendments in section 13 of the Federal Reserve Act, was amended by the Reconstruction Finance Corporation Act, approved January 22, 1932. This section of the Revised Statutes provides that no national bank shall be indebted or liable in an amount exceeding its capital stock, but there are certain exceptions to this limitation, one of which, prior to the act of January 22, 1932, was liabilities incurred under the provisions of the War Finance Corporation Act. The amendment referred to struck this exception from the law and, in lieu thereof, made an exception in favor of liabilities incurred under the provisions of the Reconstruction Finance Corporation Act.

Security for 15-day advances to member banks.—Under the provisions of section 13 of the Federal Reserve Act the Federal Reserve banks have had authority since 1916 to make advances to their member banks for periods not exceeding 15 days on the security of paper eligible for discount or purchase by Federal Reserve banks or obligations of the United States. This section was amended by an act of Congress approved May 19, 1932, so as to enlarge the classes of security which may be used as collateral for such advances to include debentures or other such obligations of Federal intermediate credit banks which are eligible for purchase by Federal Reserve banks.

Discount for Federal intermediate credit banks.—Since 1923 the Federal Reserve banks have been authorized by section 13 (a) of the Federal Reserve Act to rediscount for Federal intermediate credit banks agricultural paper which the latter have acquired by discount or purchase. This section was amended by the act of May 19, 1932, so as to confer upon Federal Reserve banks the additional authority to discount notes payable to and bearing the indorsement of any Federal intermediate credit bank, covering loans or advances made by such bank direct to any national or State bank, trust company, agricultural credit corporation, incorporated livestock loan company, savings institution, cooperative bank or cooperative credit or mar-

keting association of agricultural producers, or to any other Federal intermediate credit bank, when such notes have maturities at the time of discount of not more than 9 months and are secured by paper eligible for rediscount by Federal Reserve banks.

Cost of examination of trust departments of national banks.— Under authority conferred by an act of Congress approved July 2, 1932, which in effect amended section 21 of the Federal Reserve Act, the Comptroller of the Currency may assess the costs of examining the trust departments of national banks against each bank examined in proportion to the amount of its trust business.

The text of the several amendments to the law above referred to and of the conditions prescribed by the Federal Reserve Board with respect to the discount of paper for individuals, partnerships, and corporations pursuant to the provisions of the act of July 21, 1932, will be found in the appendix.

ADMINISTRATION OF SECTION 8 OF THE CLAYTON ANTITRUST ACT

During the year 1932 the Board acted upon the applications of 249 persons for permission to serve at the same time as director, officer, or employee of more than one bank or trust company under the provisions of section 8 of the Clayton Antitrust Act. In one case, also, the Board acted upon a request that the officers and employees of one bank be permitted to serve at the same time as officers or employees of another bank where their services with these banks were substantially within the provisions of an exception to the prohibitions of this law. Sixty-five apparent violations of section 8 of the Clayton Act were reported to the Board by the Comptroller of the Currency and, where violations were found to exist, appropriate steps were taken to bring about conformity with the law.

RIGHT OF FEDERAL RESERVE BANK TO REQUIRE COLLATERAL SECURITY IN REDISCOUNTING PAPER

Certain questions of importance to Federal reserve banks and their member banks were decided by the United States Circuit Court of Appeals for the Fourth Circuit on June 13, 1932, in the case of *Lucas v. Federal Reserve Bank of Richmond*. This suit was brought in January 1931 against the Federal Reserve bank by certain creditors of the First National Bank of New Bern, N.C., which had been placed in the hands of a receiver, on behalf of themselves and others similarly situated, in order to enforce certain alleged rights of the national bank which the receiver had refused to undertake to enforce. The Federal Reserve bank filed a motion to dismiss the bill upon the ground that it was without equity and upon certain other grounds, and the district court granted the motion of the Reserve bank and entered an order dismissing the bill. The complainants appealed to

the circuit court of appeals, but that court affirmed the decision of the lower court.

The most important point decided in the case was that a Federal Reserve bank may lawfully take paper which is ineligible for discount as additional security for the indebtedness of a member bank arising out of the discount of eligible paper. The court also held that the allegation of the complainants that the Federal Reserve bank had obtained an unlawful preference in requiring the deposit of collateral security for the indebtedness of its member bank could not be sustained.

A copy of the opinion of the United States Circuit Court of Appeals in this case is published in the appendix.

MEETINGS OF FEDERAL ADVISORY COUNCIL

Five meetings of the Federal advisory council were held in Washington during 1932 on the following dates: February 16, March 28-29, May 24, September 20, and November 17-18.

ORGANIZATION, STAFF, AND EXPENDITURES

On February 12, 1932, Ogden L. Mills succeeded Andrew W. Mellon as Secretary of the Treasury and as ex-officio chairman of the Federal Reserve Board.

John W. Pole, who became Comptroller of the Currency and ex-officio member of the Federal Reserve Board on November 20, 1928, resigned effective at the close of business September 20, 1932.

Leo H. Paulger was appointed Chief of the Division of Examinations, effective January 16, 1932.

J. C. Noell, assistant secretary, was appointed also as fiscal agent, effective February 26, 1932, to succeed W. M. Imlay, who died on February 23, 1932.

G. Howland Chase was appointed assistant counsel, effective May 2, 1932.

The total cost of conducting the work of the Board during the year 1932 was approximately \$787,706. Two assessments were levied against the Federal Reserve banks, aggregating \$728,809.80, or less than one fifth of 1 percent of their average paid-in capital and surplus for the year.

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

Early in 1933, the year covered by this the Twentieth Annual Report of the Federal Reserve Board, banking difficulties, which had been developing since the beginning of the depression, became greatly intensified. Conditions became so critical in the first week of March as to necessitate a Nation-wide suspension of banking activities by Presidential proclamation, followed by a reopening of banks under a general plan of rehabilitation of the banking machinery of the country. Cooperation with other agencies of the Government in efforts to bring about this rehabilitation of the banking system constituted an important part of the work of the Federal Reserve System during the year, and the System's participation was an important factor in this work. Another important part of the System's work in 1933 was the interpretation and administration of banking laws enacted in the course of the year.

Early in 1933 with the recurrence of bank failures and deposit withdrawals the Federal Reserve System was called upon to meet large demands for currency and gold, so that, at the time when all the banks were closed early in March, member bank reserves had been drawn down to a low level, and Reserve bank credit outstanding and money in circulation were in the largest volume on record. The ability of the Federal Reserve banks to meet enormous demands for currency during the crisis demonstrated the effectiveness of the country's currency system under the Federal Reserve Act. At no time was there difficulty in converting a balance with a Reserve bank into currency or in increasing such a balance through the discount of eligible paper. Under the terms of emergency legislation passed in 1932 sound assets not ordinarily eligible for rediscount could also be converted into balances with a Reserve bank and consequently, if the need existed, into currency. The crisis of February and March 1933, therefore, was not a currency crisis but a banking crisis, and was occasioned not by a shortage of currency but by loss of confidence in the solvency of banks and by a depreciation in bank assets consequent upon the drop in prices of all classes of property caused by the depression.

After the middle of March, the reopening of banks and the return of confidence resulted in a rapid return flow of currency to the Reserve banks. The demand for Reserve bank credit consequently diminished, discounts for member banks declined rapidly, and

member banks built up considerable reserves in excess of legal requirements. In the middle of May the Federal Reserve banks resumed the policy of purchasing United States Government securities for the purpose of encouraging business recovery by increasing the excess reserves of member banks. These excess reserves reached a level of \$800,000,000 in October and remained near that level for the remainder of the year.

During 1933 changes of a fundamental character occurred in the monetary system of the United States, the most important of which was suspension of gold payments. At the time of the banking crisis gold payments by banks and the Treasury were suspended by the Government, and the export of gold was placed under control of the Secretary of the Treasury. In April an embargo was imposed on gold exports. In May there was legislation authorizing the President within certain limitations to change the gold content of the dollar. Further legislation in June prohibited the inclusion of gold clauses in obligations that might be incurred thereafter, including obligations of the United States, except currency, and abrogating such clauses in obligations already outstanding. The value of the dollar in foreign exchange markets began to decline April 18, 1933, and by the end of the year was more than 35 percent below its legal parity in terms of gold currencies. Early in 1934, acting under the terms of the Gold Reserve Act of 1934, the President redetermined the weight of the gold dollar. It was fixed at $15\frac{1}{2}$ grains of gold nine tenths fine, compared with the old weight of 25.8 grains. On January 31, 1934, the country returned to a gold basis at the new level.

Important banking legislation was enacted during 1933 both at the time of the banking crisis and later in the year, and this legislation is described in detail elsewhere in this report. The Banking Act of 1933, enacted in June, included provisions imposing upon the Federal Reserve banks and the Federal Reserve Board many new responsibilities, including regulation of the volume of security loans by member banks, and requiring the Board to exercise special supervision over the foreign relations of the Federal Reserve banks. Conditions under which member banks are authorized to have branches were made more liberal. Member banks were forbidden to be dealers in securities, required to divorce security affiliates, forbidden to pay interest on deposits payable on demand, and subjected in respect to interest on time deposits to limitations to be prescribed by the Federal Reserve Board. The act provided for a plan for insuring deposits up to \$2,500 for any depositor in any participating bank, to become effective at the end of the year. All member banks were required to participate in the plan and nonmember banks were authorized to participate under certain conditions. The Federal Reserve banks were required to invest an amount equal to one half of their surplus in stock of the Federal Deposit Insurance Corporation.

Industrial and business activity and the level of commodity prices were at low ebb in the first quarter of 1933. Following the reopening of banks in the middle of March the volume of production, employment, and trade showed a considerable advance, and there occurred a rise in commodity prices. The improvement was particularly marked in industries producing semifinished products, and the Board's index of industrial production, which is based largely on the output of such products, advanced by midsummer to a level equal to that prevailing on the average in the 3 years 1923-25. Subsequently there occurred a recession in production. At the end of the year industrial output and factory employment were at about 75 percent of the 1923-25 averages. In the last quarter of the year, as indicated by figures adjusted for seasonal variation, department store sales were about 15 percent larger than in the first quarter, the output of industry about 20 percent larger, and the number of employees at factories about 25 percent greater. Commodity prices at the end of the year were about 20 percent higher than at the beginning and at the highest level since the autumn of 1931.

DEVELOPMENTS LEADING TO THE BANKING CRISIS

The banking crisis early in 1933 was a culmination of developments that had been under way since the beginning of the depression in 1929 and in many areas for a considerably longer period. One of the outstanding characteristics of the depression had been the successive outbreaks of acute banking difficulties that began in 1930 and continued to recur from time to time until March 1933. Between the end of December 1929 and the end of February 1933 nearly 5,500 banks, or more than one bank in every five, suspended operations, with deposit liabilities aggregating about \$3,500,000,000.

Bank failures, 1930-33.—The first series of these failures came in the latter part of 1930 in Kentucky, Tennessee, Arkansas, and North Carolina, followed by suspension of a large bank in New York and another in Philadelphia. Conditions improved early in 1931, but there was another and even more wide-spread series of failures from the middle of 1931 until February 1932. This series started with suspension of a large number of banks in Chicago and the surrounding region and spread to Ohio and other Midwestern States, to Pennsylvania and New York, and toward the end of 1931 to New England.

Following the formation of the Reconstruction Finance Corporation in February 1932 the rate of suspensions was substantially reduced. In June and July 1932, however, banking difficulties again occurred in Chicago and surrounding territory. During the remainder of 1932, until December, there were relatively few failures and most of these were among small banks. In December 1932 suspensions began to increase and in the first 6 weeks of 1933 they became more

numerous and more widespread and involved more banks of substantial size. The volume of deposits of suspended banks was particularly large in southern New Jersey, the District of Columbia, Tennessee, Illinois, Iowa, Missouri, Nevada, and California. Finally, renewed banking difficulties in February 1933 led to the temporary closing of all banks by official action, first in the State of Michigan, then in other States, and finally by Presidential proclamation throughout the country.

Decrease in value of bank assets.—The successive waves of bank failures between 1930 and 1933 reflected primarily the drastic decline that occurred in the value of bank assets and the withdrawal of deposits in currency. Continued decrease in the value of bank assets, although due chiefly to the business depression, reflected in addition the fact that when banks had to liquidate assets, whether loans or investments, to meet sudden demands from depositors, such liquidation contributed to declines in the prices of securities and commodities. This unfavorable influence became aggravated when banks were suspended, because their deposits, which represented a part of the liquid funds of the community used for current business purposes, were tied up for varying periods, while their assets were being sold as rapidly as possible. This contributed to further decreases in market values and to further restrictions on business enterprise.

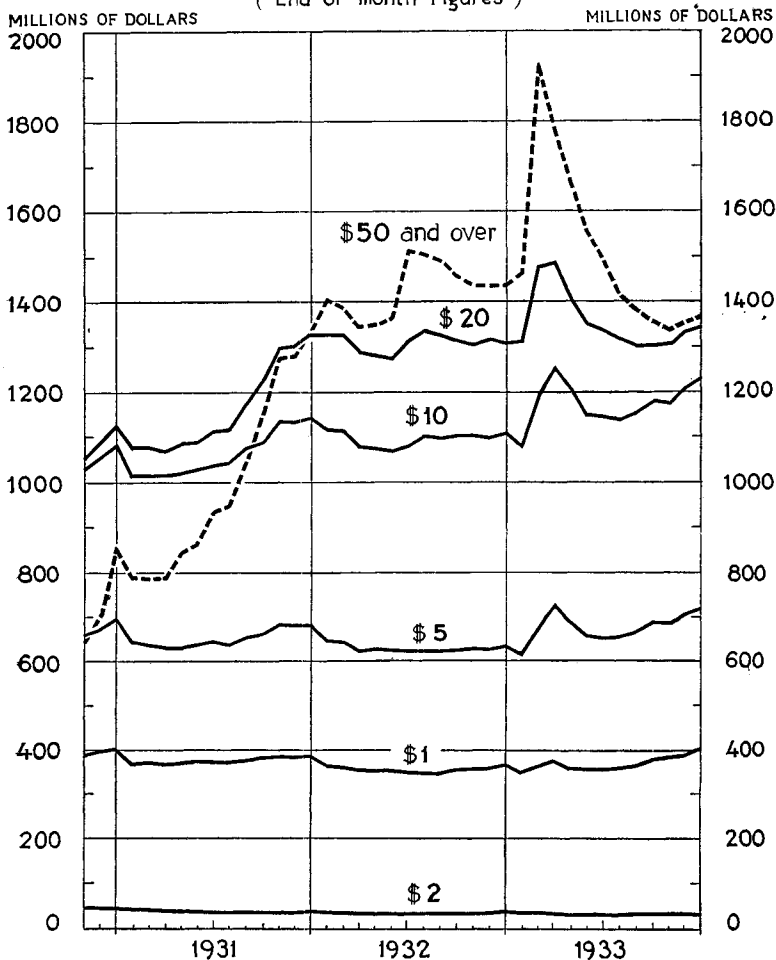
In the 3 years, 1930, 1931, and 1932, the reported volume of total loans and investments of member banks declined by nearly \$8,500,000,000, reflecting the elimination of many banks by suspensions, the repayment of loans and the sale of investments, and the writing down or writing off of both loans and investments because of a decline in the realization value of these assets. Loans declined nearly \$11,000,000,000 and there was also a decline after 1930 in member bank holdings of corporate bonds, while holdings of Federal, State, and Government bonds increased more than \$3,000,000,000. During the same period the decline in the net deposits of member banks approximated \$7,000,000,000, or about \$1,500,000,000 less than that shown in loans and investments, the difference reflecting largely a substantial decrease in the capital, surplus, and undivided profits of the banks that arose to a large extent from losses sustained in consequence of declines in asset values.

Currency withdrawals.—Withdrawals of deposits in currency, which in many instances was not redeposited in other banks, began to assume considerable proportions in the autumn of 1930 and thereafter the total amount of currency withheld from deposit was augmented with each new wave of bank suspensions. The accompanying chart shows the volume of paper currency of different denominations in circulation since October 1930.

The increase in large denominations clearly indicates that most of the currency withdrawn represented funds taken out for hoarding. The continued steady demand for small denominations while business was declining probably reflects an increase in the use of currency for business purposes in lieu of checks in localities where banking

DENOMINATIONS OF PAPER CURRENCY

(End of month figures)



Money in circulation, i.e., outside Treasury and Federal Reserve banks.

facilities had been substantially impaired and also in places where confidence in banks had been shaken.

The shifting of deposits.—Many withdrawals of deposits were not in the form of currency but in the form of transfers of accounts from banks in which confidence was shaken to other banks. There is no accurate measure of the extent to which this took place, but it is known

that, while certain banks were losing deposits in substantial amounts, other banks were either gaining deposits or losing only relatively small amounts. Large depositors with wide connections transferred accounts from bank to bank and from city to city. In the 6 months between July 1932 and January 1933, for example, as shown in the accompanying table, while the deposits of New York and Chicago banks

MEMBER BANK DEPOSITS

[Net demand and time deposits; monthly averages of daily figures. In millions of dollars]

	July 1932	January 1933	Percent change
All member banks.....	24, 712	25, 641	+3. 8
Central Reserve city banks in:			
New York City.....	5, 951	7, 050	+18. 5
Chicago.....	1, 113	1, 230	+10. 5
Reserve city banks.....	8, 717	8, 792	+ . 9
Country banks in:			
Places of over 15,000 population.....	5, 189	5, 018	-3. 3
Places of under 15,000 population.....	3, 742	3, 550	-5. 1

showed large increases, those of reserve city banks remained practically unchanged, and those of country banks, particularly in the smaller towns, showed substantial decreases. Deposits in nonmember banks showed a percentage decline similar to that for country member banks in the smaller places.

In order to obtain funds to meet withdrawals of deposits, whether for currency hoarding or for transfer to other banks, banks subjected to withdrawals were forced to call loans, to sell securities, or to borrow on their assets. As a rule the better assets were liquidated or pledged first, leaving the poorer assets as cover for the remaining deposits. When banks were forced to liquidate assets to meet demands of depositors, values were further depreciated and the position of other banks weakened. These developments contributed to the spread of suspensions and to the loss of confidence in banks.

Efforts to prevent bank failures.—Throughout the depression many attempts were made to prevent the failure of individual banks and to check the spread of bank failures. Private efforts averted a large number of suspensions and these efforts were supplemented from the early days of the depression by measures of collective action, including the provision by governmental authorities of new lending facilities.

In the autumn of 1931 the National Credit Corporation was formed under the sponsorship of the banks themselves to make loans to banks in difficulties.

In February 1932 the Reconstruction Finance Corporation was established under act of Congress to lend to banks, to other financial institutions, and to railroads. By the end of July 1932 the Corporation had outstanding over \$500,000,000 of loans to banks, and at the

end of December 1932 about \$600,000,000. In addition, over \$270,000,000 had been loaned to railroads, largely to meet maturing obligations, and about \$150,000,000 to insurance companies, mortgage institutions of various kinds, and agricultural credit agencies. The granting of these loans served for the time being to check the volume of bank failures.

Borrowings of member banks from the Federal Reserve banks had increased to a billion dollars by the end of 1931, and while member banks in the aggregate held an ample amount of paper eligible for rediscount at the Reserve banks, there were many individual members that required assistance but did not possess eligible paper. To meet this situation the Federal Reserve Act was amended in February 1932 to permit a member bank under exceptional circumstances to borrow from a Federal Reserve bank upon paper other than that ordinarily eligible for rediscount or as collateral for loans. About 50 member banks availed themselves of this permission in 1932 and 308 in 1933. While the amounts involved in these loans were not large, the maximum outstanding at any one time being \$95,000,000, the existence of these facilities served a useful purpose in many individual situations.

An amendment to the National Bank Act, approved July 22, 1932, made all United States Government bonds bearing coupon rates up to 3½ percent eligible, for a period of 3 years, as security for circulation of national bank notes. This provision permitted national banks that owned such Government securities to obtain currency without selling or borrowing on these securities.

Another amendment to the Federal Reserve Act in February 1932, permitted the Board to authorize Federal Reserve agents for a limited period to accept Government securities from Federal Reserve banks as collateral for Federal Reserve notes. This did not expand the lending facilities available to member banks, but it increased the power of the Federal Reserve banks to purchase Government securities in the open market in order to meet demands for the export of gold and increased currency requirements, as well as to furnish member banks with additional reserve funds. Such funds, when not absorbed by gold exports or currency withdrawals, could be used by member banks to reduce their borrowings at the Reserve banks or to increase loans and investments. On the strength of this authority the Federal Reserve banks in the spring and early summer of 1932 increased their holdings of United States Government securities by approximately \$1,100,000,000. As a consequence, notwithstanding an outward flow of gold of \$500,000,000, member banks were able to reduce their borrowings at the Reserve banks by about \$350,000,000 and to increase their reserve balances by approximately \$200,000,000.

THE BANKING CRISIS

While the measures that have been reviewed served to check the cumulative process of liquidation, they did not result in a restoration of the value of assets held by banks or in restoration of confidence in the solvency and safety of banks. There was some betterment in the third quarter of 1932, when there was a definite improvement in industrial and financial conditions. The volume of production increased, trade was more active, unemployment was somewhat reduced, currency returned from hoards, the outflow of gold changed to an inflow, banks reduced their borrowings, and prices rose in commodity, stock, and bond markets. In the last quarter, however, the improvement in business was not sustained. At the same time it became evident that there was a wide-spread and growing popular distrust of the ability of a great many banks to meet their liabilities.

In January 1933 the post-holiday return flow of currency was less than usual, indicating that currency was being withheld from deposit, and early in February substantial withdrawals of currency indicated the development of another major hoarding movement. In addition to currency hoarding, there were substantial transfers of deposit accounts from banks in which depositors had lost confidence to other institutions, involving in many cases the shift of funds from one section of the country to another. Toward the end of February there was also some loss of confidence in the prospective convertibility of the currency, and withdrawals of gold, which had occurred sporadically during the preceding 2 years, increased in volume. There were demands for gold both for domestic hoarding and for export. As these movements developed, the pressure was felt not only by the weaker member and nonmember banks in scattered sections of the country, but generally by member and nonmember banks in the financial centers and elsewhere throughout the country and by the Federal Reserve banks, which experienced a large demand both for Federal Reserve notes and for gold, so that their liabilities increased and their reserves simultaneously decreased.

Between the early part of February and March 4, money in circulation increased by \$1,830,000,000, of which \$1,430,000,000 was in Federal Reserve notes and \$320,000,000 in gold and gold certificates, and at the same time \$300,000,000 of gold was withdrawn through earmarking. Nearly two thirds of these demands were concentrated in the week ending March 4. In order to obtain currency and gold, member banks, between early February and March 4, increased their bills discounted at the Federal Reserve banks by over \$1,160,000,000 and drew down their reserve balances by over \$500,000,000. At the same time the Reserve banks increased their holdings of purchased bills by \$390,000,000 and of United States Government securities by nearly \$100,000,000.

As a consequence of the simultaneous increase of Federal Reserve notes in circulation and decrease in gold holdings, the ratio of the reserves of the Federal Reserve banks to their note and deposit liabilities declined to 45.3 percent on March 3. In the critical circumstances then existing and in order to adjust the operating position of the Reserve banks to the situation, the Federal Reserve Board deemed it advisable on March 3, acting under authority of section 11 (c) of the Federal Reserve Act, to suspend reserve requirements for a period of 30 days and to establish a tax on the amounts by which reserves were deficient. Little use was made of this suspension by the Reserve banks because of a marked turn for the better in the banking situation. In view of the rapid flow of currency and gold to the Reserve banks after the reopening of the banks, the suspension was not renewed at the expiration of the 30-day period.

The development of the banking crisis was accompanied by a sharp increase in money rates. In the New York money market, rates on bankers' acceptances, which were sold in large quantities by banks and dealers, rose from the low level of one fourth of 1 percent early in February to as high as 3½ percent in the week ending March 4. The official rate for new call loans on stock-market collateral rose from a nominal level of 1 to 4 percent, with outside bids of as high as 5 and 6 percent on March 3. Commercial paper rates also advanced. In line with the general rise in money rates and in order to combat both domestic and foreign withdrawals of funds from the banks, the Federal Reserve Bank of New York on March 3 raised its rediscount rate from 2½ to 3½ percent and effective March 4 the Federal Reserve Bank of Chicago made a similar change in its rate. During the week when banks were first reopened, money rates were even higher—commercial paper was at 4½ and call loans at 5 percent and March 15 issues of 5-month and 9-month Treasury certificates carried rates of 4 and 4½ percent, respectively. Subsequently, money rates in general promptly declined to more moderate levels.

Banking authorities in the different States had been obliged to adopt emergency measures from the beginning of February. On February 4 a 1-day holiday was declared in Louisiana to permit large New Orleans banks to raise funds and make readjustments necessary to enable them to continue to meet their obligations. On February 14 a 4-day banking holiday was declared in Michigan to enable banks in Detroit to make similar arrangements and to provide in the interim, as stated in the Governor's proclamation, "for the equal safeguarding without preference of the rights of all depositors." Satisfactory settlement of the difficulties was not reached, however, and the holiday was extended.

While the Michigan holiday arrested withdrawals of deposits from banks in that State, outside Michigan there was an increase in the movement of funds from weaker to stronger banks and in currency

withdrawals. Funds were withdrawn from banks in other States to send to Michigan or to meet payments that would otherwise have been met from deposits in Michigan banks. Developments of this nature were partly responsible for the rapid spread of the bank-holiday movement among other States. On February 25, the Governor of Maryland declared a bank holiday, chiefly on account of conditions in Baltimore, and at about the same time restrictions were authorized on withdrawals of bank deposits in Indiana, Arkansas, and Ohio. In a number of States new laws were passed to provide for safeguarding bank depositors or for readjusting the liabilities of banks without establishing receiverships. With a view to enabling the banking situation in any particular State to be better handled as a whole, a joint resolution was adopted on February 25 by the Congress of the United States authorizing the Comptroller of the Currency to exercise with respect to national banks such powers as State officials might have with respect to State banks.

On March 1 Alabama, Kentucky, Tennessee, and Nevada declared bank holidays, and similar action was taken by 6 other States on March 2 and 7 others on March 3. On the morning of March 4, the Governor of the State of New York issued a proclamation declaring that day, which was a Saturday, and the following Monday to be bank holidays. Similar action was taken in Illinois, Massachusetts, New Jersey, Pennsylvania, and elsewhere.

The bank holiday, March 4-12.—Declaration of holidays in the various States had by March 4 closed or placed under restrictions practically all banks in the country. Federal Reserve banks also observed State holidays and closed on March 4. All leading exchanges ceased operations and business in general was practically at a standstill. On March 6 the President issued a proclamation¹ declaring a Nation-wide bank holiday to continue through the 4 days ending Thursday, March 9. An important purpose of this action was to attack the problem of bank failures comprehensively by reviewing at one time the condition of all banks and reopening only such banks as could meet all demands upon them. This procedure was intended both to assure more equitable treatment as between the depositors who were making withdrawals and those who were not, and to restore confidence in the banking situation as a whole.

The President's proclamation was issued under the authority of a section of the "Trading with the Enemy Act" of October 6, 1917, as amended September 24, 1918, which gave the President power to regulate or prohibit transactions in foreign exchange and in gold and silver, and also to prohibit the hoarding of gold and silver coin and bullion and of paper currency. The proclamation declared that

¹ Proclamations and Executive orders issued during the year dealing with currency and banking matters are printed on pp. 319-330.

there had been heavy and unwarranted withdrawals of gold and currency and extensive speculative activity in foreign exchanges, which had created a national emergency, and the bank holiday was ordered to prevent a continuation of such hoarding and speculation and to permit the application of appropriate measures for protecting the interests of all bank depositors and other persons dependent on the banks. During the holiday banks were not to pay out any coin, bullion, or currency or to transact any other banking business whatsoever, except as might be permitted by the Secretary of the Treasury. The Secretary of the Treasury was authorized to permit banks to perform any or all banking functions, to require or permit the issuance of clearing-house certificates, and to authorize special trust accounts for receipt of new deposits.

At the same time the President called a special session of Congress to meet on March 9 to enact such legislation as might be needed for the reopening of banks. In the interim attention was devoted not only to devising measures for reopening the banks but also to effecting arrangements for meeting during the holiday certain essential payments. The Secretary of the Treasury distributed through the Federal Reserve banks a series of regulations permitting specified types of transactions, and a number of statements interpreting these regulations.

Some of the more important Treasury regulations were as follows: Banks were permitted to perform in a limited manner specified banking functions, such as to make change, complete settlements not involving payments of currency, allow access to safety-deposit boxes, deliver documents held for safekeeping, and transact certain fiduciary business. They were also given permission to perform functions essential to provide the community with food, medicine, and other necessities of life, for relief of distress, for payment of usual salaries and wages, and for similar purposes. Banks were permitted to accept special trust deposits withdrawable on demand. Such deposits were to be held in cash or in United States Government obligations or deposited with Federal Reserve banks, which in turn were to hold such deposits in special accounts. These regulations contained provisions that in the exercise of these powers no bank should pay out any gold or gold certificates, and that banks should not permit withdrawals of currency for purposes of hoarding.

On March 7 Federal Reserve banks were authorized to supply currency, extend credit, and make transfers required by member banks in exercising the powers granted to them, provided that the member banks should inform the Federal Reserve banks of the amounts of currency held and of the circumstances giving rise to need for more currency and should deliver to the Reserve bank all gold and gold certificates held. The demand for gold for domestic hoarding had been

one of the striking aspects of the course of events that brought on the banking crisis and it was deemed advisable to obtain a return of this gold to the banks. Accordingly, on March 8 the Federal Reserve Board requested the Federal Reserve banks to prepare lists of persons who had recently withdrawn gold (including gold certificates) and had not redeposited it in a bank by March 13, the date being subsequently extended, and to give publicity to the request. On March 10 the President issued an Executive order which prohibited the export of gold except in accordance with regulations prescribed by or under license issued by the Secretary of the Treasury.

The cessation of gold payments, the possible publication of the names of gold hoarders, together with the general recognition by the public of the desirability of restoring to the country's reserves gold held privately, where under prevailing conditions it did not promote the public interest, resulted in a rapid return flow of gold and gold certificates to the Reserve banks and the Treasury.

Since an important part in the events leading up to the banking crisis was played by the demand for currency, means of meeting possible further demands when the banks reopened were considered during the banking holiday. It was recognized as essential in resuming banking operations to have made provisions for an adequate supply of currency to meet all possible demands of depositors.

Issuance of clearing-house certificates or of similar forms of local emergency currency was among the matters to which consideration was given by Government officials and by various local agencies. In previous monetary crises, before the Federal Reserve System was established, such certificates had proved useful. On March 7 the Secretary of the Treasury issued a regulation authorizing clearing houses and similar qualified associations to issue demand certificates against sound assets of banking institutions, but this authorization was not to become effective before March 10, since it was hoped that in the meantime a comprehensive national plan might be evolved. In many cities the printing of such certificates was begun and arrangements were made for pledging the required assets, but after the passage of the Emergency Banking Act of March 9 it became evident that these certificates would not be needed. Provisions of this act made possible the issue of the necessary amount of emergency currency in the form of Federal Reserve bank notes, which could be based on any sound assets possessed by banks.

The Emergency Banking Act.—On March 9, 1933, Congress assembled in special session and received a message from the President asking for legislation "giving to the executive branch of the Government control over banks for the protection of depositors; authority

forthwith to open such banks as have already been ascertained to be in sound condition and other such banks as rapidly as possible; and authority to reorganize and reopen such banks as may be found to require reorganization to put them on a sound basis."

On the same day the legislation requested was passed by Congress and signed by the President. This act confirmed all of the emergency measures adopted by the President and the Secretary of the Treasury since March 4 and gave the President emergency powers to control foreign exchange transactions, gold and currency movements, and banking transactions.

The act also provided that when necessary for the conservation of the assets of a national bank the Comptroller of the Currency might place the bank in the hands of a conservator, whose powers differ in important respects from those of a receiver. The principal duty of a conservator, like that of a receiver, is to conserve the assets of the bank for the benefit of depositors, but in performance of this duty he is not under the same obligation as a receiver to liquidate the assets. He may resort, furthermore, to certain new procedures for reorganization, some of which require approval of a smaller proportion of the depositors and stockholders than older methods. The act also authorized the issuance and sale of preferred stock by national banks and the purchase of such stock by the Reconstruction Finance Corporation.

These measures provided means for readjusting the liabilities of insolvent banks without receiverships and for checking or slowing down the process of liquidation which had been contributing to the continued decline in the value of bank assets in general and thus undermining other banks. Banks were offered, moreover, a new method of raising funds through the sale of preferred stock, capital notes or debentures. This method enabled them to meet demands for funds without creating claims superior to the claims of their depositors, such as those which arose when they borrowed at the Reconstruction Finance Corporation or elsewhere.

The Federal Reserve Act was amended by the act of March 9, 1933, to permit the issuance by Federal Reserve banks of Federal Reserve bank notes which could be secured by direct obligations of the United States Government up to 100 percent of their value, or by any notes, drafts, and bills acquired by the Federal Reserve banks up to 90 percent of their value. No reserves were required to be held against these notes. Conditions under which Federal Reserve banks were authorized in unusual circumstances to make loans to member banks, on collateral otherwise considered ineligible, were liberalized. The Reserve banks were also authorized by this act to make advances to

individuals, partnerships, and corporations on notes secured by United States Government obligations.¹

These measures made it possible for any member bank during the emergency to meet all demands for currency so long as it had sound assets, regardless of the technical eligibility of these assets under permanent law.

Program for reopening banks.—After the passage of the Emergency Banking Act on March 9, the President issued a proclamation indefinitely extending the bank holiday and on March 10 by Executive order he conferred upon the Secretary of the Treasury power to license members of the Federal Reserve System found to be in satisfactory condition to conduct a usual banking business with exceptions as to the paying out of gold and the furnishing of currency for hoarding. A like power was granted to the banking authorities of the various States with respect to banks outside of the Federal Reserve System. The Federal Reserve banks were designated in this Executive order to act as agents of the Secretary of the Treasury for the receiving of applications and the issuance of licenses in his behalf and upon his instructions. On Saturday, March 11, the Reserve banks were authorized by the Treasury to reopen on the following Monday for the performance of all usual banking functions, except as to the paying out of gold and the furnishing of currency for hoarding. On the same date it was announced that on March 13 banks in the 12 Federal Reserve bank cities would be reopened, on March 14 banks in approximately 250 other cities having recognized clearing houses, and on March 15 banks in other places. On Sunday evening, March 12, the President made a statement by radio in which he gave an account of what had been done during the crisis, outlined the program on which banks were to be reopened, gave the assurance that banks reopened would take care of all needs and indicated that the success of the whole program was dependent upon the cooperation of the public.

CONDITIONS FOLLOWING THE BANKING CRISIS

The measures adopted during the bank holiday and the statement by the President to the people resulted in a restoration of confidence so that as soon as the banks were reopened a large volume of currency was redeposited in the banks. Money in circulation, which reached a peak of over \$7,500,000,000 early in March, declined by about \$1,250,000,000 during the remainder of that month and by about \$2,000,000,000 by the end of August.

¹ The Emergency Relief and Construction Act of 1932, approved July 21, had contained authority for the Reserve banks to make advances to individuals, (1) in unusual and exigent circumstances, (2) by authority of a vote of not less than five members of the Federal Reserve Board, (3) on eligible paper endorsed and otherwise secured to the satisfaction of the Federal Reserve bank, and (4) on submission of evidence that the borrower was unable to secure adequate accommodation from other banking institutions.

The return flow of money was principally from hoards rather than from active circulation, as is indicated by the fact that the larger part of the paper currency returned to the Federal Reserve banks after March was in the larger denominations, \$50 and over, which are used relatively little in day-to-day transactions. Amounts of currency of various denominations in circulation on end-of-month dates between October 1930 and December 1933 are shown in the chart on page 5. From the end of February 1933 when money in circulation was about \$1,000,000,000 less than at the peak, to the end of July, currency of denominations of \$50 and over declined by about \$500,000,000, or 26 percent, whereas currency of \$20 denomination declined by \$165,000,000, or 11 percent, and the circulation of the denominations of \$10 and under, which are the ones used largely for business purposes, declined by \$75,000,000, or 3 percent. In the next few months the circulation of large denominations continued to decrease while that of small denominations showed a seasonal increase.

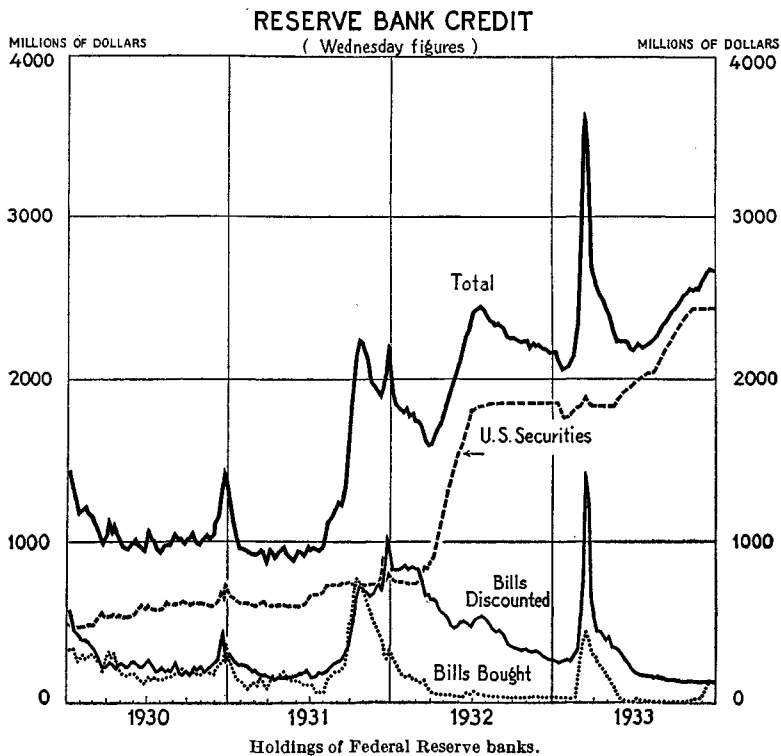
There was also a rapid return flow of gold and gold certificates to the Reserve banks and the Treasury, which continued at a diminishing rate during the remainder of the year. Between March 4 and March 15, \$370,000,000 in gold coin and gold certificates were returned, an amount about \$50,000,000 more than had gone out between the first of the year and March 4. About \$260,000,000 was returned in the second half of March, about \$175,000,000 more in the second quarter of the year, and about \$60,000,000 more in the last 2 quarters.

With this return flow of currency and gold, banks showed an increase in their deposits and were also able to reduce indebtedness incurred during the banking crisis. By the middle of April deposits at the weekly reporting member banks had increased by about \$1,000,000,000 and before the end of June the increase amounted to more than \$2,000,000,000.

Reserve bank credit, March to December.—In the first month after the resumption of operations, member banks reduced their borrowings at the Federal Reserve banks by about \$1,000,000,000, and at the same time increased their reserve balances by about \$300,000,000. In this period maturing acceptances held by the Reserve banks were also paid off to the extent of over \$150,000,000. Further reductions in member-bank borrowings and increases in their reserves during the remainder of the year reflected principally purchase of United States Government securities by the Reserve banks. In conjunction with this policy of open-market purchases the Federal Reserve banks also reduced their rates on discounts and on acceptances. At New York the discount rate was reduced from 3½ to 3 percent on April 7, to 2½ percent on May 26, to 2 percent on October 20, and to 1½ percent on February 2, 1934. Reductions were also made in the discount rates at other Reserve banks. Rates on acceptances were

also substantially reduced and the rate on the shorter maturities was one half percent in the last quarter of the year.

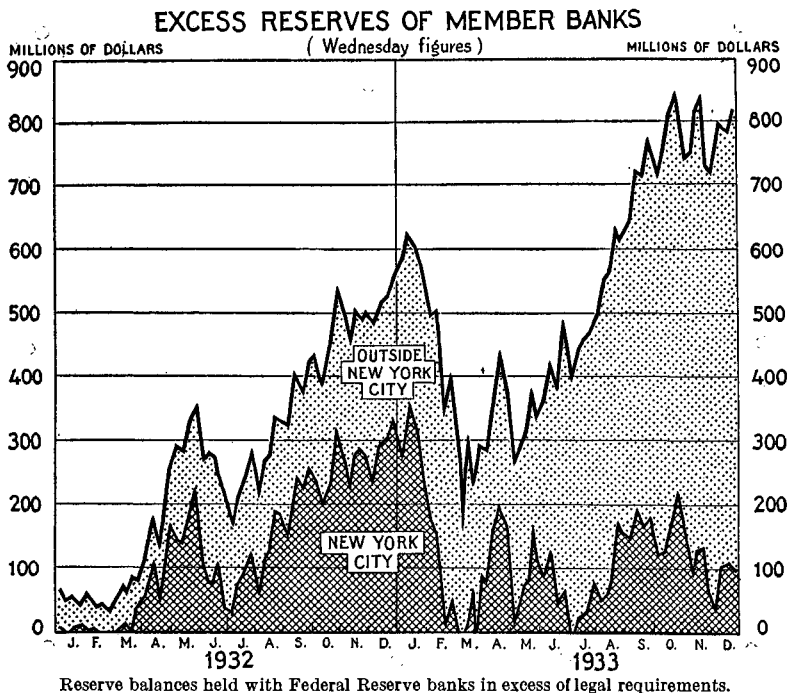
The chart shows the course of the total volume of Reserve bank credit, and of holdings by the Reserve banks of discounts, acceptances, and United States Government securities for the 4 years 1930-33.



Member bank reserve balances.—The building up of member bank deposits was accompanied by a growth of member bank reserve balances with the Federal Reserve banks, reflecting both the redeposit with the Reserve banks of currency returning from circulation and open-market purchases by the Reserve banks. Since the increase in legal reserve requirements arising from the growth of deposits was much smaller than the increase in reserve balances, excess reserves of member banks rose in the autumn to \$800,000,000, the highest level then on record. This volume of excess reserves was maintained to the end of the year.

Excess reserves of member banks during 1932 and 1933 are shown on the chart, with separate figures for banks in New York City and outside New York City. The chart shows that excess reserves began to increase in 1932, when the Federal Reserve banks were purchasing a large volume of United States Government securities in the open market, and continued to grow, except for a short period during the

banking crisis, until the autumn of 1933. During 1932 the larger part of the excess was held by banks in New York City, where banks throughout the country kept a considerable part of their surplus funds. In 1933, however, largely as a consequence of the passage of the Banking Act of 1933 which, with some exceptions, prohibits the payment



of interest on demand deposits, excess reserves became more widely distributed, and in the last half of the year the larger part was held by banks outside of New York City.

A special survey of the distribution of excess reserves during the first half of November 1933 showed that more than half of all the member banks held reserves that were at least 20 percent above legal requirements, and only 6 percent of all member banks were deficient in reserves. The proportion of member banks with a considerable volume of excess reserves was larger among member banks with deposit liabilities of \$500,000 or less than among larger member banks. This large and widely-distributed volume of excess reserves was an important influence in maintaining easy conditions in the money market and constituted in the existing circumstances a factor favorable to business recovery.

OPEN-MARKET OPERATIONS: 1930-33

Throughout the period of the depression the Federal Reserve System lent its support to efforts to counteract deflationary forces and to facilitate expansion of business activity. With this end in

view the System pursued a policy of reducing its discount and open-market rates and of purchasing United States Government securities in the open market, thereby placing a large volume of reserve funds at the disposal of member banks.

During the speculative expansion in 1928 and 1929 the Federal Reserve System had sold the greater part of its holdings of Government securities, thereby causing member banks to increase their discounts with the Reserve banks, and at the same time had advanced its discount and acceptance rates in pursuance of a policy of restraining credit expansion by increasing both the volume and the cost of indebtedness of member banks to the Reserve banks. This policy of restraint terminated when the speculative boom came to an end in the autumn of 1929, and a policy of assistance to the market was adopted during the following period of crisis. Between the end of September of 1929, when the stock market break began, and the end of that year the Federal Reserve banks purchased \$350,000,000 of Government securities and \$100,000,000 of acceptances in order to help the member banks to meet demands that were being made upon them and in order to ease the money market at a time of serious financial disorganization.

ITEMS RELATED TO OPEN MARKET POLICY: 1930-33

[In millions of dollars]

Date	Reserve bank holdings of			Monetary gold stock	Money in circulation	Member bank reserve balances		
	U. S. Government securities	Bills bought	Discounts			Total	Required ¹	Excess ¹
End of 1929.....	511	392	632	4,284	4,865	2,355	2,428	-73
July 20, 1932.....	1,836	52	538	3,952	5,735	2,036	1,789	247
End of 1932.....	1,855	33	235	4,513	5,675	2,509	1,935	574
End of 1933.....	2,437	133	98	4,323	5,806	2,729	1,870	859
Changes during:								
1930, 1931, and to July 20, 1932.....	+1,325	-340	-94	-332	+870	-319	-639	+320
July 20, 1932, to end of year.....	+19	-19	-303	+561	-60	+473	+146	+327
1933.....	+582	+100	-137	-190	+131	+220	-65	+285
1930 to 1933.....	+1,926	-259	-534	+39	+941	+374	-558	+932

¹ Partly estimated.

The Reserve System's open-market policy in relation to the depression may be considered as beginning with the opening of the year 1930. The table shows the principal items directly related to this policy for significant dates during the period 1930-33. Figures for July 20, 1932, are shown because that date marked a reversal in the movement of currency and gold.

At the beginning of 1930 the Reserve banks held about \$500,000,000 of United States Government securities and \$390,000,000 of acceptances, and the member banks were in debt to the Reserve banks to the extent of \$630,000,000. During the period from the beginning of 1930 to September 1931 the Federal Reserve banks bought a substantial amount of United States Government securities, and thereby enabled member banks to meet the domestic demand for currency for hoarding and at the same time to reduce their borrowings. Additional funds were supplied to the banks during this period through an inflow of gold from abroad, with the consequence that at the middle of September 1931 member banks had \$200,000,000 of excess reserves. In the latter part of 1931, following the suspension of gold payments by England, there was a large outflow of gold and member bank borrowings at the Reserve banks increased. Early in 1932, after the passage of the Glass-Steagall Act, which authorized the pledging of United States Government obligations as collateral against Federal Reserve notes, the Federal Reserve banks undertook open-market operations on a large scale, increasing their holdings by about \$1,100,000,000 between the end of February and the middle of July. These purchases enabled member banks to meet large demands for gold from abroad and for currency for domestic hoarding and at the same time to reduce their borrowings and to build up their balances.

During the 30 months from the beginning of 1930 to July 1932, taken as a whole, the increase in Federal Reserve bank holdings of Government securities was \$1,325,000,000. These purchases enabled the member banks to meet a drain of gold amounting to \$330,000,000 and a demand for currency of \$870,000,000 and at the same time to reduce their indebtedness to the Reserve banks by \$95,000,000, as well as to provide funds for the repayment of maturing acceptances in the amount of \$340,000,000. Member-bank reserve balances declined during the period by \$320,000,000, but the decline was smaller than the decrease in reserve requirements caused by a reduction in bank deposits, so that member bank reserves, which were approximately equal to legal requirements at the close of 1929, were, by mid-July of 1932, \$247,000,000 in excess of such requirements.

Up to that time the open-market policy of the Federal Reserve banks, although it had created a substantial volume of excess reserves, was effective chiefly in counteracting the unfavorable influence on banking conditions of gold withdrawals and currency hoarding. Both of these movements ceased in the middle of July 1932 and during the remainder of that year there was a considerable inflow of gold and some return of currency from hoarding. Since the assets of the Reserve banks consisted in large part of holdings of United States Government securities, which could be liquidated only at the initiative of the

Reserve banks, and only in small part of discounts for member banks, the inflow of gold in the second half of 1932 was only partly absorbed by further liquidation of member-bank indebtedness and resulted, in addition to liquidation of discounts for member banks, in a further growth of excess reserves to \$575,000,000 by the end of the year. Member banks, therefore, entered the year 1933 with a low level of indebtedness to the Reserve banks and a large volume of excess reserves.

It is not necessary for the purpose of reviewing the system's open-market operations during 1933 to discuss the developments which accompanied the banking crisis in February and March, during which there was a temporary increase of large magnitude in the volume of money in circulation and a corresponding growth in member-bank borrowings at the Reserve banks. These developments are discussed elsewhere in this report. The currency withdrawn during the panic soon returned to the Reserve banks after the banks of the country were reopened and was used by member banks to reduce their borrowings.

During the year 1933 taken as a whole, the Reserve banks purchased \$580,000,000 of Government securities. These purchases resulted in a further reduction of \$140,000,000 in member-bank indebtedness to the Reserve banks, which at the end of the year was below \$100,000,000 for the first time since the early days of the system. This reduction in member-bank indebtedness occurred notwithstanding a loss of \$190,000,000 of gold during the year and an increase of \$130,000,000 in money in circulation. By the autumn member-bank reserve balances in excess of legal requirements increased to a level above \$800,000,000, the largest since the establishment of the Federal Reserve System. Open-market operations in 1933 may be described as having been conducted primarily for the direct purpose of building up excess reserves of the member banks with a view to further easing conditions in the money market and encouraging the banks to adopt more liberal lending and investing policies and so to facilitate the recovery of business.

Summing up the open-market operations for the 4 years 1930-33, the Reserve banks purchased during those years about \$2,000,000,000 of Government securities with the consequence of reducing indebtedness of member banks and Reserve bank holdings of acceptances by about \$800,000,000 and building up reserves of member banks by \$375,000,000, notwithstanding an increase of \$940,000,000 in money in circulation. Inasmuch as reserve requirements had been reduced by \$560,000,000 through the decline in bank deposits, the volume of reserves at the close of the 4-year period was more than \$800,000,000 in excess of legal requirements.

It is difficult to say what the course of the depression would have been had the Federal Reserve System not pursued a policy of liberal

open-market purchases, which at first helped the banks to meet extraordinary demands upon them and later to build up excess reserves to an unprecedented level. This policy, together with the concurrent reduction in discount rates, was an important factor in the general decline of money rates to extreme low levels. Commercial paper, which at the opening of 1930 was at a 5 percent level, had declined by the end of 1933 to 1½ percent. Bankers' acceptances declined from 4 percent to five eighths of a percent. The call money rate declined from 6 to 1 percent. The rate on Treasury certificates declined from 3½ to one fourth percent, and average rates charged by banks in leading cities to their commercial customers declined from about 6 to 4½ percent.

That the system's open-market policy also exerted an influence on the volume of bank credit is indicated by the fact that in the middle of 1932 the precipitous decline in bank credit was temporarily arrested partly in consequence of the large volume of reserves that were available to member banks. During 1933, however, the volume of member bank loans and investments, after a very rapid decline during the banking crisis of the first 2 months, rose only slowly as banks reopened and resumed operations, and after midsummer showed relatively little change. The banks' investments in Government securities increased considerably during the year; their other investments showed little change, while their open-market loans increased somewhat. Loans to commercial customers, however, as nearly as they can be measured from available statistics, declined rapidly during the first 2 months of the year and regained only a part of that loss during the remainder of the year.

A review of open-market operations by the Federal Reserve System during the 4 years indicates, therefore, that the placing of reserve funds in the market through the purchase of United States Government securities has been an effective means of preventing exceptional demands upon the member banks from tightening the credit situation and that these funds have been a powerful means toward the establishment and maintenance of ease in the short-term money market. Although the abundant credit provided was not effectively employed by business, it would appear that the maintenance continuously of a substantial volume of excess reserves through open-market purchases helped to arrest a powerful deflationary movement and created conditions propitious to business recovery.

REHABILITATION OF THE BANKING STRUCTURE

General rehabilitation of the banking structure began with the adoption and promulgation of the plan for reopening the banks after the banking holiday. A vital element in carrying this plan into effect was the public confidence created by the President's

radio address on March 12 in which he gave the people the assurance that the banks reopened would be able to meet every legitimate call and that the Government was determined not to have "another epidemic of bank failures."

In accord with the Government's announced policy the Secretary of the Treasury licensed during the first 3 days after the banking holiday 4,507 national banks and 571 State member banks, or about 75 percent of all member banks of the Federal Reserve System, leaving unlicensed 1,400 national banks and 221 State member banks. By April 12, State banking authorities had licensed approximately 7,400 nonmember banks, or about 71 percent of the total number of such banks. The resources of the member banks licensed at that time represented about 90 percent of the resources of all member banks and their estimated deposits approximated \$23,000,000,000. By the end of the year the number of licensed member banks had increased to 6,011, as a result of the reopening of unlicensed banks, the organization of new member banks, and the admission of State banks to membership in the Federal Reserve System, while the number of nonmember banks operating without restrictions had increased to approximately 8,200. The number of unlicensed member banks had been reduced by the end of the year to 512 and the number of unlicensed nonmember banks to approximately 1,400.¹

A number of the member banks that were licensed to reopen at the conclusion of the banking holiday, and many of those that were licensed later in the year, were strengthened in some way before they were licensed, chiefly with new capital supplied by local interests or with funds from the Reconstruction Finance Corporation. After being reopened, furthermore, a considerable number of banks were strengthened through additions to their capital. Some additions were made in the second and third quarters of the year, but most of them were made in the last quarter when banks in large numbers were being fortified with funds from the Reconstruction Finance Corporation for entrance at the end of the quarter into the Federal deposit insurance fund.

An important form of procedure in the administration of unlicensed national banks, of which there were 1,400 on March 15, was through the appointment by the Comptroller of the Currency of conservators, in accord with the Bank Conservation Act of March 9, 1933. The Comptroller has reported the use of conservatorships in 1,088 cases.

The conservator of a national bank may, with the approval of the Comptroller of the Currency, pay out an authorized percentage of deposits previously accepted, and is permitted to accept new deposits, to be held in cash or United States Government securities or on deposit with a Federal Reserve bank, and to pay out such new

¹ Figures for nonmember banks as given throughout this report, except when otherwise specified, are exclusive of mutual savings banks.

deposits. This enables a national bank to render a limited banking service to its community during whatever period may intervene before it is reopened or placed in receivership. A conservator has authority to reorganize a bank on the basis of agreements signed by creditors representing 75 percent of total deposits and other liabilities or by stockholders owning at least two thirds of the outstanding capital stock or by a combination of the two, these agreements to be binding upon the minority creditors and stockholders. When reopening of the bank on a sound basis has become possible he may turn the bank over to its board of directors.

The powers possessed by conservators enabled them in certain communities to facilitate the prompt release of deposits in a number of closed institutions, sometimes to the extent of as much as 50 percent of these deposits, through the instrumentality of a new bank organized to take over in effect a part of the business of each of the closed banks. In some instances the conservators of the participating institutions sold the new bank good assets of the unlicensed institutions. In other cases, funds were provided the new bank through borrowing on the assets of the old bank from the Reconstruction Finance Corporation, the old institution subsequently going into receivership. This method was widely used throughout the country and assisted, as for instance in Detroit, in the liquidation of some of the largest of the closed banks.

Release of deposits.—On April 12, 1933, when the first comprehensive figures became available after the banking crisis, nearly \$4,000,000,000 of deposits were tied up in about 4,200 unlicensed or restricted banks, member and nonmember, that had been open prior to the banking holiday. By a process of reopening restricted banks or placing them in liquidation the aggregate volume of deposits in restricted banks was reduced by the end of June to about \$2,500,000,000, and by the end of the year to about \$1,225,000,000 in about 1,900 banks, including about 1,400 nonmember banks. Many of the nonmember banks classed as operating under restriction were permitted to operate with varying proportions of their deposits subject to withdrawal.

Receivers and liquidating agents of closed banks, in releasing funds to depositors, have been able in many cases since February 1932 to borrow from the Reconstruction Finance Corporation. In October 1933, in order to accelerate this process, the Deposit Liquidation Board was established, which included officials of the Reconstruction Finance Corporation and other Government departments. The primary concern of this arrangement was with banks which had closed after January 1, 1933. After the creation of the Board and up to the end of 1933, the Reconstruction Finance Corporation had authorized for the purpose specified 776 loans aggregating more than

\$300,000,000. At the end of the year approximately \$146,000,000 had been disbursed on these loans and additional disbursements were being made at the rate of several million dollars daily. By borrowing upon the assets of closed banks receivers and other liquidating agents have been able to conserve values, to liquidate in an orderly manner, and to make it possible for a large number of depositors to obtain funds without prolonged delay.

Deposit insurance.—The plan for the insurance of deposits, included in the Banking Act of 1933, approved June 16, introduced an important new element into the process of rehabilitating the banking structure. The act provided for a temporary insurance fund to become effective January 1, 1934, and for a permanent plan of deposit insurance to become effective on July 1, 1934, both to be administered by the Federal Deposit Insurance Corporation.

The temporary plan provided for the insurance of deposits up to \$2,500 for any depositor in any participating bank. Licensed members of the Federal Reserve System were required to participate in the temporary insurance fund, and the Insurance Corporation was not required to examine them. A nonmember bank operating on an unrestricted basis was permitted to apply for participation and was eligible if it was certified by the State authorities to have assets sufficient to meet its deposits and other liabilities.

The Federal Deposit Insurance Corporation undertook to examine during the closing months of the year such of the approximately 9,000 nonmember banks as applied for participation in the insurance fund. During September the Corporation sent forms to all nonmember banks upon which to make application for participation. A large body of examiners was mobilized, headquarters set up in State capitals, and with the cooperation of the State banking authorities the task of examining applicants was completed by the end of the year. Examiners of the Federal Reserve System, of the Comptroller's office, and of the State superintendents of banking all participated in handling this large task of examination.

Figures of the Federal Deposit Insurance Corporation as of February 15, 1934, showed that 13,529 institutions were members of the temporary Federal deposit insurance fund—5,229 national banks, 909 State-chartered banks belonging to the Federal Reserve System, and 7,391 State-chartered banks not members of the System. The total number of insured accounts was reported at 54,682,092, and the volume of insured deposits \$15,483,000,000.

The working capital available to the temporary fund included the subscription of \$150,000,000 by the United States Treasury, \$139,300,000 subscribed by the Federal Reserve banks, and approximately \$37,000,000 derived by an assessment on participating banks. The contribution of participating banks was equal to one fourth of 1

percent of their insured deposits, and the Corporation has the power to levy in all for the needs of the temporary fund total assessments of not more than 1 percent of the aggregate of insured deposits.

Recapitalization of banks.—To prepare banks for participation in the insurance fund, as well as in the interest of general rehabilitation of the banking structure, the Government determined in the course of the summer to make liberal use of the authority possessed by the Reconstruction Finance Corporation to make investment in the capital of banks as permitted by section 304 of the Emergency Banking Act.

During the first few months following the banking crisis, this power was utilized chiefly in connection with bank reorganization for the purpose of extending essential banking services to communities that lacked such services, but during the summer the Federal Reserve Board cooperated in making a survey to determine the amount of new capital that might be required to strengthen active banks preparatory to their applying for participation in the Insurance Corporation. The Federal Reserve Board requested the Federal Reserve agents to keep in touch with such member and nonmember banks in their respective districts as might require their assistance. Federal Reserve officials cooperated with State banking authorities in organizing local situations and in bringing about the prompt filing of proper applications by State banks with the Reconstruction Finance Corporation.

The program to improve the capital position of the banks was promoted by the formation for the purpose late in October of a special division of the Reconstruction Finance Corporation with an advisory administrative committee of eight members which was named by the President and included the Governor of the Federal Reserve Board. The results of this program were becoming apparent in the last 2 months of the year. Many of the strongest metropolitan banks cooperated in the program, enlarging their capitalization by taking Reconstruction Finance Corporation funds. By the end of the year applications for additional capital had been received from about 5,000 banks, more than one third of all active banks. One third of the applicants were member banks and two thirds were State banks not members of the Federal Reserve System. By December 31, 1933, the Reconstruction Finance Corporation had made commitments with respect to capital investments in more than 4,500 banks in an amount aggregating \$842,000,000, of which \$264,000,000 had been disbursed. Additional capital to be furnished by the Corporation had been officially authorized with reference to nearly 550 member banks, in the aggregate amount of about \$345,000,000, of which about \$240,000,000 had been disbursed. For about 1,800 nonmember banks the amount then authorized was about \$160,000,000 and the amount disbursed about \$22,000,000. In addition, member and non-

member banks had commitments for new capital from the Corporation aggregating about \$340,000,000. After the end of the year the program continued to develop rapidly, new authorizations were made, and within a few weeks an additional \$150,000,000 was disbursed.

The policy followed by the Secretary of the Treasury in reopening banks after the banking holiday, together with the steps to strengthen member banks subsequently taken in cooperation with the Reconstruction Finance Corporation, was reflected in the fact that but 15 of the approximately 6,000 member banks reopened were obliged to suspend operations during the remainder of the year.

SUSPENSION OF GOLD PAYMENTS

General loss of confidence in the solvency of banks that characterized the acute stages of the banking crisis, leading to the withdrawal of large amounts of paper currency for hoarding, was accompanied by considerable but less widespread loss of confidence in the paper currency itself. This was reflected in demands upon the commercial banks, and through them upon the Reserve banks, for substantial amounts of gold to be placed in private hoards, sent out of the country, or otherwise utilized to protect the holder against possible financial loss. A consequence of these events, as noted elsewhere in this report, was to reduce substantially the amount of gold held by the Federal Reserve banks as a basis for currency and credit, and to build up the amount held in private hands where under prevailing circumstances it could serve no useful public purpose. Official measures taken during the banking holiday to halt and later to reverse such developments represented the first of a series of steps that led before the end of April to a suspension of gold payments in the United States.

Gold hoarding.—Heavy withdrawals of gold for hoarding were one of the factors that led to the proclamation of March 6, declaring a bank holiday. While the proclamation did not require the return of gold already hoarded, it characterized the practice of hoarding gold as unwarranted and provided that during the bank holiday neither any Federal Reserve bank nor any other bank should pay out, export, earmark, or permit the withdrawal of any gold or take any other action that might facilitate the hoarding thereof. A regulation issued by the Secretary of the Treasury on March 7, permitting the Federal Reserve banks to perform certain limited services for their member banks, provided that the Reserve bank should first require the member bank to deliver to it all gold and gold certificates held by the member bank in its own right. On March 8 the Federal Reserve Board requested the Federal Reserve banks to prepare a list showing the names of persons who had recently withdrawn gold or gold certificates from a Reserve bank or a member bank and who had not redeposited

the gold or gold certificates before March 13 (a date later extended). On March 9, by section 3 of the Emergency Banking Act, the Secretary of the Treasury was authorized, whenever in his judgment such action should be deemed necessary to protect the currency system, to require all persons to deliver to the Treasurer of the United States all gold coin, gold bullion, and gold certificates owned by them in exchange for an equivalent amount of any other coin or currency coined or issued under the authority of the United States. All these measures were taken during the banking holiday, and their effect in promptly bringing large amounts of gold and gold certificates out of hoards has been described elsewhere in this report.

The next step was taken on April 5 in an Executive order which prohibited the hoarding of gold coin, gold bullion, and gold certificates, and required anyone holding such gold or gold certificates in excess of \$100 to deliver the excess to a Federal Reserve bank, either directly or through a member bank, on or before May 1, 1933. A statement to the press issued at the time by the Secretary of the Treasury stated in effect that in the emergency the turning in of hoarded gold to the Federal Reserve banks, which could use it as a basis for currency and credit, was a duty owed by all citizens; that while many had voluntarily turned in their gold, others had not done so and that by this order the Government would, as in fairness it ought, assure performance of this duty by the others. On December 28, the Secretary of the Treasury issued an order revoking the \$100 exemption in connection with the holding of gold coin by the public, and from that date no gold coin—excepting coin having a recognized value to collectors of rare coin—could be legally held.

Control of gold exports.—The proclamation of March 6, declaring the banking holiday, prohibited the exportation of gold by banks as well as the paying out of gold, except as authorized by the Secretary of the Treasury. In this respect the proclamation applied to the Federal Reserve banks as well as to member and nonmember banks. An exception was made, however, by official authorization on March 7 for gold earmarked prior to March 6 for foreign governments, foreign central banks, and the Bank for International Settlements, provided each shipment was specifically authorized by a license issued by the Secretary of the Treasury. Licenses for export of gold so held were freely granted by the Secretary. On March 10, the day after the passage of the Emergency Banking Act, the export of any gold coin, gold bullion, or gold certificates by anyone, except as authorized by the Secretary of the Treasury, was prohibited.

The order issued on April 5, prohibiting hoarding of gold, provided that the Secretary of the Treasury might license the Federal Reserve banks and the member banks of the Federal Reserve System to deliver gold for proper domestic purposes (not involving hoarding) or

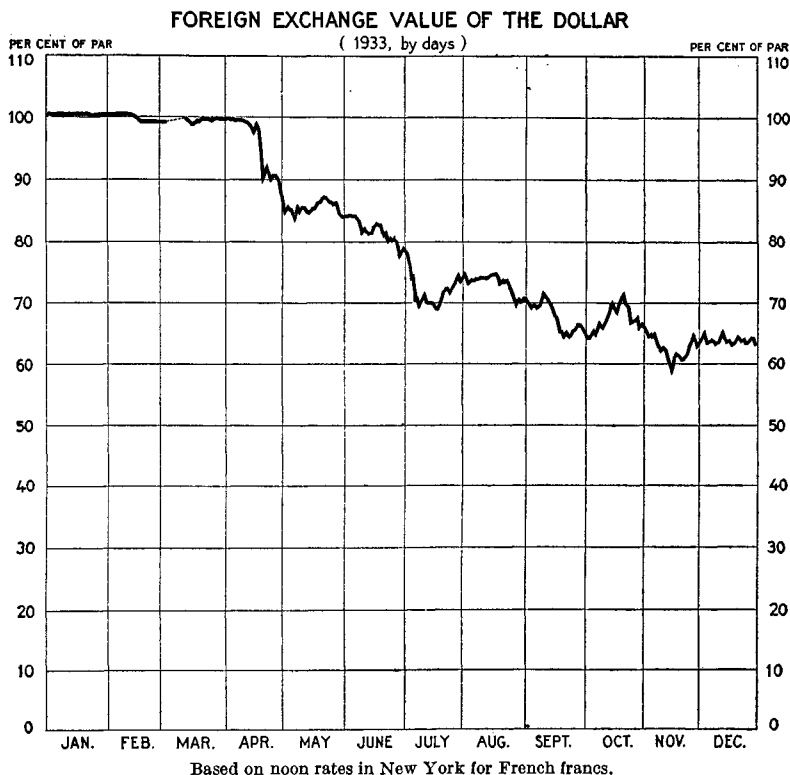
for export upon a showing by the applicant of need for gold for such purposes. On April 13, upon application of a member bank in New York City, the Secretary of the Treasury issued a license authorizing a shipment of about \$600,000 in gold bars to Holland, and on April 15-17 licenses were granted for the export of \$9,000,000 in gold bars to France. These exports were authorized at a time when exchange on important European countries was at gold export point and had the effect for the time being of steadying the value of the dollar in the foreign exchange market. On April 18 applications for licenses to export were refused, notwithstanding further weakness in the dollar in the exchange market, and on April 19 it was officially announced that licenses for the export of gold would no longer be freely granted. On April 20 an Executive order was issued definitely prohibiting the export of gold, with specified exceptions including gold previously earmarked for account of foreign governments, foreign central banks, and the Bank for International Settlements. With these exceptions, the authority of the Secretary of the Treasury to issue licenses for the export of gold was limited to such transactions as he might deem necessary to promote the public interest and in respect to these he was authorized to issue licenses only with the approval of the President. During the 3 days April 18-20 the value of the dollar in relation to gold standard currencies declined sharply to a level considerably below parity.

Abrogation of gold clause.—On June 5 legislation was enacted which abrogated in respect to all obligations past and future any provision purporting to give the obligee a right to require payment in gold or in an amount of money measured thereby, and included specific reference to every obligation of and to the United States excepting currency.

Gold purchases.—On August 29 an Executive order was issued in effect permitting producers of gold newly mined from natural deposits in the United States to sell such gold on the world market, by consigning it for the purpose to the Secretary of the Treasury, the sales to be made through the Federal Reserve banks or other agents designated by the Secretary. Transactions under this order continued for about 2 months. On October 25 the President issued an Executive order revoking the order of August 29 and authorizing the Reconstruction Finance Corporation to acquire gold and to dispose thereof. The Corporation accordingly offered to take at an announced price, in exchange for its own 90-day debentures, all gold newly mined in the United States. The initial price was above the dollar price of gold in London and other centers, and it was raised daily, almost without interruption, until the middle of November. From the middle of November to the first of December there were five changes, and only one change thereafter until the dollar was devalued

on January 31, 1934. The Reconstruction Finance Corporation also engaged in purchases of gold abroad. In all these transactions the Federal Reserve Bank of New York acted as agent.

The accompanying chart shows by days the course of dollar exchange throughout 1933 in relation to gold currencies.



Gold Reserve Act of 1934.—At the end of January 1934, Congress passed the Gold Reserve Act of 1934, which provided that title to all monetary gold in the United States should be vested in the United States Government, and that, in case the President should, under authority of the act of May 12, 1933, reduce the weight of the gold dollar, this weight should not exceed 60 percent of the old weight. On January 31, 1934, the President issued a proclamation fixing the weight of the gold dollar at $15\frac{1}{2}$ grains nine-tenths fine, or at 59.06 of the former weight of 25.8 grains. At the same time he gave notice that he reserved the right to alter or modify this proclamation as the interest of the United States may seem to require.

Effective February 1, 1934, the United States Treasury undertook to purchase all gold offered at \$35 an ounce, compared with the old statutory price of \$20.67 an ounce, and to sell gold for export to

foreign central banks whenever our exchange rates with gold-standard currencies reach the gold export point.

GROWTH OF WORLD STOCK OF GOLD

In 1933, as in the previous year, there was a large increase in the amount of gold available for world monetary use. There was a further movement of gold from the hoards of the Indian people amounting to about \$140,000,000, a release of gold from private holdings in China, the Straits Settlements, and Russia approximating \$80,000,000, and a production of new gold for the world as a whole of \$505,000,000, which was somewhat larger than production in 1932. Consumption of gold by industry was about matched by melting down scrap and plate ware. The bulk of the gold coming from mines and from eastern hoards during the year, amounting to approximately \$720,000,000, was absorbed in private or undisclosed holdings in Europe, almost entirely during the first half of the year and during the final quarter.

Recorded reserves of central banks and governments increased during 1933 by about \$45,000,000. Monetary gold stock of the United States declined by \$190,000,000, but gold holdings of the Federal Reserve banks and the Treasury declined by only \$30,000,000, the difference reflecting the turning in of gold by the public in compliance with Executive orders and Treasury regulations. Recorded central gold reserves increased in England, \$345,000,000; in Italy, \$65,000,000; in South Africa, \$50,000,000; in the Union of Soviet Socialist Republics, \$50,000,000; in Sweden, \$45,000,000; and in Belgium, Mexico, Greece, and Portugal by an aggregate of \$60,000,000. Reserves in France declined \$230,000,000; in Germany, \$100,000,000; in Switzerland, \$90,000,000; in Netherlands, \$45,000,000; in Australia \$40,000,000; and in Siam \$30,000,000.

BUSINESS CONDITIONS

In the first quarter of 1933, accompanying the banking crisis, the volume of industrial production and of factory employment declined to about the low level of July 1932 and the volume of merchandise distributed in domestic and foreign trade showed a considerable decrease. Prices of commodities in both wholesale and retail markets continued to decline and there were further reductions in rents. In the security markets prices declined but remained somewhat above the low levels prevailing in the middle of 1932. The volume of new capital flotations receded further, and mortgage money continued to be generally unavailable. Expenditures for private construction remained at an extremely low level, and the volume of new public projects undertaken showed a considerable decline, reflecting in part further curtailment by local governmental agencies which in many instances were not in a position to issue new securities or to refund earlier issues.

During the last three quarters of the year business was much more active than during the first quarter, as shown in the accompanying table and brought out in detail in the following paragraphs, and at the end of the year all of the principal lines of activity, though still far below their average level for the years 1923, 1924, and 1925, were materially above the low points of the depression.

PRODUCTION, EMPLOYMENT, AND TRADE IN 1933

[Index numbers, 1923-1925=100. Adjusted for seasonal variation]

Quarter	Industrial production	Construction contracts awarded (value)	Factory employment	Factory pay rolls	Freight-car loadings	Department-store sales (value)	Wholesale commodity prices ¹
First.....	63	19	58	39	53	59	60
Second.....	79	16	61	42	57	67	63
Third.....	92	24	73	55	62	72	70
Fourth.....	75	48	73	54	60	68	71

¹ Without seasonal adjustment.

Industrial production and commodity prices.—Industrial output advanced rapidly from March to July, reflecting sharp increases in the production of semifinished goods, both durable and nondurable, and smaller increases in output of finished articles. Increases in the output of steel ingots, semifinished textile products, flour, tobacco products, automobiles and tires were particularly large. This expansion in activity was stimulated by the reopening of banks, the low level of stocks of certain commodities and the prospect of higher costs and higher prices in many lines. The increase in manufacturing activity in turn was an important factor in stimulating a rise in commodity prices, particularly prices of raw materials. In many instances prices were affected directly or indirectly by the prospect of limitations of production, processing taxes, industrial codes, and the decline of the dollar in the foreign exchange market. An unusually small winter wheat crop was an important element in a rapid advance in wheat prices. In general, price increases in this period were most marked in raw materials, which were most in immediate demand and which, in many instances, were traded in international markets. This marked recovery in raw materials prices was from extremely low levels.

After July the total volume of industrial production declined considerably for 4 months, reflecting chiefly sharp reductions in activity in the manufacture of semifinished goods which in earlier months had increased rapidly and in some instances had reached levels higher than in 1929. In December industrial output as a whole declined by an amount smaller than is usual at this season, reflecting in part a nonseasonal increase in operations at steel mills that arose

from a change in trade practices. Consumption of raw materials in the textile industries continued to decline.

In the late summer and in the autumn there was a recession in the prices of many raw materials, while prices of finished goods, which had shown smaller increases in earlier months, advanced somewhat further. In this period and in the last 2 months of the year, the general level of wholesale prices showed relatively little change.

Construction.—In the second quarter, while industrial production increased rapidly, the value of construction work undertaken increased by less than the usual seasonal amount. During this period there was a temporary reduction in the volume of Federal projects, while the total for private work showed an increase, accounted for largely by projects in the beverage industry and by increased building of single-family houses to be occupied by owners.

In the third and fourth quarters the volume of construction work undertaken showed large increases, reflecting a rapid growth in the amount of work undertaken by public agencies, as shown in the following table:

CONSTRUCTION CONTRACTS AWARDED IN 1933

[F. W. Dodge data for 37 eastern States. In millions of dollars]

Quarter	Total	Publicly financed	Privately financed
First.....	196	91	105
Second.....	236	70	166
Third.....	309	141	168
Fourth.....	515	383	132

The value of residential projects increased from 8 percent of the 1923-25 average in the first quarter to 13 percent in the fourth quarter, on a seasonally adjusted basis, while nonresidential work advanced from 27 to 76 percent. The increase in residential work reflected in part an increase in work of a public character, such as the building of dormitories. House rents generally declined further in the second half of the year, while prices of building materials advanced. The decline in house rents, as reported by the Bureau of Labor Statistics, was somewhat less rapid in the second half of the year than in the first half.

Distribution.—Activity in the distribution of commodities in domestic and foreign trade also showed an increase after the first quarter. The extent of the increase cannot be determined precisely for the reason that a large part of the information available is in terms of value only and not in physical units and the additional reason that for some of the important channels of distribution no organized information is available. Total railroad freight traffic increased during the spring and summer, reflecting larger shipments of all classes of commodities, and after the middle of the year the volume of rail

shipments was relatively stable at a level somewhat below the peak reached in July. The value of department store sales was relatively large in midsummer and showed somewhat less than the usual seasonal increase in the autumn months when higher prices prevailed. Regional reports on sales of automobiles and on sales of merchandise by department stores, chain stores, and mail order houses indicate that the largest growth was in the Southern States.

Value of exports of domestic commodities, which had declined to a low level in the early part of 1933, showed increases during each of the last three quarters of the year. In the second half of the year the value of exports was about a third larger than in the second half of 1932, reflecting in part increases in the prices of certain export commodities, such as cotton and tobacco, and in part increases in the physical volume of exports of other commodities, such as iron and steel products and automobiles. Value of imports increased substantially in the second and third quarters of 1933 and declined moderately in the last quarter. Imports in the second half of the year as a whole were about 50 percent larger in value than in the corresponding period of 1932, reflecting increases in both prices and quantities of commodities imported.

Employment.—In the last three quarters of 1933 the number of persons employed showed a considerable growth, reflecting chiefly increased industrial and trade activity during the spring and summer months, reductions in average working hours in the autumn, and, in the latter part of the year, the employment by the Civil Works Administration of an increasing number of people, reaching 3,500,000 by the end of December.

Factory employment increased during the spring and summer months by about one third and in September the Board's seasonally adjusted index was at 74 percent of the 1923-25 average. Subsequently there was a decline to 72 percent in December. The growth in employment reflected increases at establishments producing durable goods, such as steel, automobiles, and lumber, as well as estab-

FACTORY EMPLOYMENT IN 1933

[Index numbers, 1923-25=100. Adjusted for seasonal variation]

Quarter	Total	Durable	Nondurable
First.....	58	43	70
Second.....	61	44	74
Third.....	73	56	85
Fourth.....	73	58	84

lishments producing less durable goods, such as foods, textiles, and leather products. Employment in the production of durable manufactures, however, continued throughout the year at a level considerably below that for nondurable products, as indicated in the accompanying table.

In the construction industry, in which the number of employees had been reduced during the depression more than in most other industries, employment continued at a relatively low level in 1933. In the latter part of the year the volume of construction work undertaken by public agencies showed a rapid increase but this was only partially reflected in expenditures and employment during this period. At coal mines there were increases in employment during the second half of the year which were partly of a seasonal character. In this period working forces in bituminous fields were larger than in the corresponding period of 1932 by about 10 percent, while in anthracite fields there was a decline of about 5 percent. On the railroads the number of employees increased until September and then showed a decline. The average number employed in the last quarter was about 1,010,000, as compared with about 1,680,000 in the corresponding period in 1929. On farms the volume of employment appears to have been about the same as in other recent years, reflecting the relative stability, in the aggregate, of agricultural production.

Income.—Aggregate income of wage earners increased considerably in the second half of the year, reflecting increased pay rolls of industrial establishments and public agencies. There was also an increase in the income of farmers, as compared with 1932, arising chiefly from the higher level of prices of many agricultural commodities and in part from the distribution among producers by the Agricultural Adjustment Administration of benefit payments in connection with the production control program. Financial reports of a representative group of large corporations showed an increase in net profits during the second and third quarters of 1933, and in the latter period profits were larger than at any other time since the second quarter of 1931.

Security prices.—Stock prices at the beginning of the year, though somewhat higher than in the early summer of 1932, were at a relatively low level, and receded further during February and March 1933 during the banking crisis. Thereafter, accompanying business recovery and depreciation of dollar exchange, there was a rapid rise in stock prices, and by July representative averages for industrial and railroad shares had advanced by 100 percent. During the same period public utility stocks on the average rose by about 50 percent. From July to the end of the year the industrial average receded only slightly from its highest level, while there were more marked declines in rail and utility shares. Both industrial and railroad issues ended the year much higher than they had been at the beginning.

At the beginning of 1933 bond prices showed a pronounced rise, but during the crisis they declined sharply. From March to July there were broad advances in the bonds of railroads and industrial corporations, particularly in some of the more speculative issues, followed by a recession until nearly the end of November. For the year as a

whole corporate bonds, excepting those of public utilities, showed substantial advances.

Municipal bonds declined along with all other classes during the liquidation of February and March, but contrary to the general tendency, continued to fall until the middle of May. Some recovery followed, but these issues declined again during November and at the end of 1933 were somewhat lower than a year earlier. Federal Government issues, likewise, went to a relatively low level during March and again during the last 2 months of the year. At the end of the year Government bonds were selling at somewhat lower prices than at the beginning.

Capital issues.—The volume of new securities publicly floated in 1933, exclusive of Federal Government issues, totaled about \$1,059,000,000, of which \$337,000,000 were for refunding purposes and \$722,000,000 were to raise new capital. The total of new capital issues in 1933 was about 60 percent of that for 1932 and about 12 percent of the annual average for the years 1925–30. In 1933, as in 1932, about two thirds of the offerings were bonds of States and municipalities.

Of the total flotations for the year new stock issues accounted for \$120,000,000, almost all being equities in industrial and miscellaneous companies. This total was above that for 1932, although only a small fraction of the volume of earlier years. Corporate bond financing was at a low level throughout the year, and there were practically no flotations of new foreign securities.

Long-term financing of the United States Government in 1933 far exceeded in volume all other securities issued during the year. Federal bonds outstanding increased by \$1,346,000,000, and Treasury notes outstanding by \$1,826,000,000. There was a slight decrease in the aggregate of bills and certificates outstanding, so that the net increase in the Government's interest-bearing debt amounted to about \$3,000,000,000.

CREDIT AGREEMENTS WITH FOREIGN CENTRAL BANKS

Credits extended with the approval of the Federal Reserve Board by the Federal Reserve Bank of New York, in association with other Federal Reserve banks and other banks of issue, to the German Reichsbank and the Austrian National Bank under agreements described in the Annual Reports of the Federal Reserve Board for 1931 and 1932 were completely repaid in 1933. The credit to the German Reichsbank in which Federal Reserve participation amounted to about \$21,500,000 at the beginning of the year was liquidated on April 13. The credit to the Austrian National Bank in which Federal Reserve participation amounted to about \$975,000 at the beginning of the year was liquidated in August and September,

the final payment having been received on September 2. Federal Reserve participation in two credits extended to the National Bank of Hungary, also described in the Annual Reports of the Federal Reserve Board for 1931 and 1932, were reduced from \$4,000,000 to about \$3,500,000 on October 18, at which time they were consolidated for repayment over a period of 3 years.

The demand deposit of \$10,000,000 which was placed with the Bank for International Settlements by the Federal Reserve banks in 1931, and which amounted to about \$2,500,000 at the end of 1932, was increased to about \$3,200,000 in March 1933, but subsequently reduced to about \$2,900,000 by the end of the year.

AMENDMENTS TO THE LAW RELATING TO THE FEDERAL RESERVE SYSTEM

During the year 1933 Congress passed several acts which contained a number of provisions of importance amending the Federal Reserve Act or by their terms affecting the Federal Reserve System. These provisions are summarized below. The full text of the acts in question is printed on pages 260-295.

ACT OF FEBRUARY 3, 1933

Exceptional advances to member banks.—The act of February 27, 1932, popularly known as the "Glass-Steagall Act", amended the Federal Reserve Act by adding thereto section 10 (b), which authorized the Federal Reserve banks, until March 3, 1933, in exceptional and exigent circumstances and subject in each case to the affirmative action of not less than five members of the Federal Reserve Board, to make advances to individual member banks having a capital not exceeding \$5,000,000 which lacked sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations from the Federal Reserve banks by the customary methods. This section was amended by the act of February 3, 1933, so as to extend the time within which Federal Reserve banks might make such advances until March 3, 1934. As stated below, however, the section was further amended by the act of March 9, 1933.

Obligations of the United States as security for Federal Reserve notes.—The act of February 27, 1932, also amended section 16 of the Federal Reserve Act so as to authorize the Federal Reserve Board until March 3, 1933, when it deemed it in the public interest, to permit the use of direct obligations of the United States as collateral security for Federal Reserve notes. Prior to this amendment the collateral security for Federal Reserve notes authorized by the law was paper discounted or purchased by Federal Reserve banks and gold or gold certificates. By the act of February 3, 1933, the authority of the Federal Reserve Board to permit the use of direct

obligations of the United States as collateral security for Federal Reserve notes was extended until March 3, 1934. In March 1934 this authority was extended for 1 more year, with authority in the President to extend it for an additional period not exceeding 2 years.

ACT OF MARCH 9, 1933

The act of March 9, 1933, entitled "An act to provide relief in the existing national emergency in banking, and for other purposes", contained numerous important provisions relating to the authority of the President over the export and hoarding of coin and currency and over transactions in foreign exchange, the appointment of conservators for national banks, the reorganization of such banks and the issuance of preferred stock by them. In addition to these provisions, the act contained several amendments to the Federal Reserve Act or provisions which by their terms directly affect the Federal Reserve System.

Recapture of gold.—Section 11 of the Federal Reserve Act was amended by adding at the end thereof subsection (n) which authorizes the Secretary of the Treasury when, in his discretion, such action is necessary to protect the currency system of the United States, to require all individuals, partnerships, associations, and corporations to deliver to the Treasurer of the United States all gold coin, gold bullion, and gold certificates owned by them. The Secretary of the Treasury is required to pay therefor an equivalent amount of other forms of coin or currency, together with all costs of transportation. Failure to comply with this provision is made subject to a penalty of twice the value of the gold or gold certificates in respect to which such failure occurred.

Transaction of banking business in emergencies.—The act of March 9, 1933, prohibits a member bank, during such emergency period as the President of the United States may prescribe, from transacting any banking business except in accordance with regulations, limitations, and restrictions prescribed by the Secretary of the Treasury with the approval of the President, and penalties are provided for violations of this prohibition.

Issuance of Federal Reserve bank notes.—Section 18 of the Federal Reserve Act was amended so as to authorize the issuance, under certain prescribed conditions, of circulating notes to Federal Reserve banks, usually known as Federal Reserve bank notes, upon the security of direct obligations of the United States in amounts equal to the face value of such obligations, or upon the security of any notes, drafts, bills of exchange, or bankers' acceptances acquired by Federal Reserve banks under the Federal Reserve Act in amounts equal to not more than 90 percent of the estimated value of such collateral security. Prior to the passage of the act of March 9,

1933, it had been possible under the law to issue Federal Reserve bank notes only against the security of United States bonds which were eligible as security for national bank notes; and it is provided that no Federal Reserve bank notes may be issued after the President shall declare that the emergency recognized by him in his proclamation of March 6, 1933, has terminated, unless they are secured by bonds of the United States bearing the circulation privilege.

Advances to member banks in exceptional circumstances.—Section 10 (b) of the Federal Reserve Act, which authorizes advances by Federal Reserve banks in exceptional and exigent circumstances to individual member banks which are without sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations from the Federal Reserve banks through other methods provided by the law, was further amended by the act of March 9, 1933, by eliminating the requirement for action by the Federal Reserve Board with respect to such advances and the limitation of \$5,000,000 upon the capital of member banks receiving such advances and also by providing that no such advances may be made after March 3, 1934, or after the expiration of such additional period, not exceeding 1 year, as the President may prescribe.

Advances to individuals, partnerships, or corporations on the security of obligations of the United States.—Section 13 of the Federal Reserve Act was amended so as to add thereto a new paragraph authorizing a Federal Reserve bank, under such regulations as the Federal Reserve Board may prescribe, to make advances for periods not exceeding 90 days to any individual, partnership, or corporation on promissory notes secured by direct obligations of the United States.

ACT OF MARCH 24, 1933

The act of March 9, 1933, was amended by the act of March 24, 1933, by adding thereto a new section which authorizes Federal Reserve banks under certain conditions to make loans to any State bank or trust company not a member of the Federal Reserve System upon security approved by such Federal Reserve bank and after a thorough examination of the borrowing institution. During the time that such borrowing bank or trust company is indebted to a Federal Reserve bank it must comply in all respects with the provisions of the Federal Reserve Act applicable to State member banks and the regulations of the Federal Reserve Board issued thereunder, including the maintenance of the reserve balance required under section 19 of the Federal Reserve Act, but need not subscribe to stock in the Federal Reserve bank. Notes representing such loans are eligible as security for Federal Reserve bank notes issued to Federal Reserve banks under the conditions prescribed in section 18 of the Federal Reserve Act. Loans may be made under this section during the existing

emergency in banking or until the section is declared no longer operative by proclamation of the President, but in no event after March 24, 1934.

ACT OF MAY 12, 1933

Title III of the act of May 12, 1933, known as the Thomas amendment, contained a number of important provisions relating to the authority of the President to fix the weight of the gold dollar and the weight of the silver dollar, to direct the issuance of United States notes for the repayment or purchase of obligations of the United States, and to accept silver in payment of indebtedness from foreign governments. In addition, the Thomas amendment contained certain provisions which by their terms directly affect the Federal Reserve System.

Purchase of obligations of the United States by the Federal Reserve banks.—This act authorizes the President in his discretion, whenever he finds that any one of certain stated conditions exists, to direct the Secretary of the Treasury to enter into agreements with the Federal Reserve banks and the Federal Reserve Board under which such banks will agree to conduct open market operations, pursuant to existing law, in obligations of the United States or of corporations in which the United States is the majority stockholder and to purchase and hold for an agreed period of time Treasury bills or other obligations of the United States in an aggregate sum of \$3,000,000,000 in addition to those held on May 12, 1933. It was also provided that no suspension of reserve requirements of the Federal Reserve banks necessitated by reason of operations in accordance with such authority shall require the imposition of a graduated tax upon deficiencies in such reserves nor an automatic increase in rates of interest or discount charged by any Federal Reserve bank, which are provided for in section 11 (c) of the Federal Reserve Act.

Legal tender.—This act also contained a provision to the effect that United States notes issued under the authority of that act as well as all other coins and currencies heretofore or hereafter coined or issued by or under the authority of the United States shall be legal tender for all debts, public or private; and this provision was amended by a provision of the Joint Resolution approved June 5, 1933, "to assure uniform value to the coins and currencies of the United States" so as to provide that all coins and currencies of the United States (including Federal Reserve notes and circulating notes of Federal Reserve banks and national banks) heretofore or hereafter coined or issued shall be legal tender for all debts, public and private, public charges, taxes, duties, and dues except that gold coins, when below the standard weight and limit of tolerance provided by law for the single piece, shall be legal tender only at valuation in proportion to their actual weight.

Change in reserve requirements.—Section 19 of the Federal Reserve Act was amended so as to authorize the Federal Reserve Board, upon the affirmative vote of not less than five of its members and with the approval of the President, to declare that an emergency exists by reason of credit expansion and during such emergency to increase or decrease the reserve balances required to be maintained against demand or time deposits by member banks.

Security for advances to member banks.—Section 13 of the Federal Reserve Act was amended by section 28 of the act of May 12, 1933, so as to authorize the use of farm loan bonds, issued by Federal land banks for certain purposes under section 21 of the latter act, as security for advances by Federal Reserve banks to member banks for periods not exceeding 15 days. The provision of section 13 of the Federal Reserve Act which was so amended, however, was again amended and reenacted by the Banking Act of 1933 so as to omit and thereby to repeal the provision containing this authority.

ACT OF JUNE 16, 1933, "BANKING ACT OF 1933"

The Banking Act of 1933 contained many important amendments to the Federal Reserve Act and other provisions affecting the Federal Reserve System.

Control of Federal Reserve bank credit by Federal Reserve Board.—Section 4 of the Federal Reserve Act, which provided that the board of directors of each Federal Reserve bank "shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements, and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks" was amended by changing "shall extend" to "may extend" and adding the words "the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture." The amendment further provides that each Federal Reserve bank shall keep itself informed of the general character and amount of the loans and investments of its member banks with a view to ascertaining whether undue use is being made of bank credit for any purpose inconsistent with sound credit conditions, and shall give consideration to such information in determining whether to make advances to such member banks. Undue use of bank credit shall be reported to the Federal Reserve Board by the chairman of the Federal Reserve bank, and the Board may suspend a member bank from the use of the credit facilities of the System if, in its judgment, the bank is making such undue use of bank credit.

Voting by groups or chains in elections of Federal Reserve bank directors.—Section 4 of the Federal Reserve Act was amended to provide that when two or more member banks are affiliated with the same holding company affiliate only one of such banks, which may be designated by such affiliate, may participate in the nomination or election of Federal Reserve bank directors.

Distribution of earnings of Federal Reserve banks.—Section 7 of the Federal Reserve Act was amended to provide that all net earnings of a Federal Reserve bank, after payment of expenses and dividend claims, shall be paid into the surplus fund of the bank. Prior to the passage of this law the provisions of the act were that the Federal Reserve banks pay all their net earnings above dividend requirements into surplus until such surplus shall have reached 100 percent of the subscribed capital and that thereafter 10 percent of the earnings should go to surplus and the remaining 90 percent should be paid to the Government as a franchise tax. As a matter of practical operation the repeal of the franchise tax provision makes little difference in the disposition of the banks' earnings, in view of the fact that the investment of \$139,000,000 of their surplus in the stock of the Federal Deposit Insurance Corporation reduced the surplus to a point where it would have taken a considerable number of years to bring that surplus up to 100 percent of the subscribed capital. During that period the Federal Reserve banks would not in any case have to pay franchise tax. The System began to pay franchise tax in 1917 and has paid some franchise tax in every year since with the exception of 1918 and 1931, the aggregate payments for the entire period amounting to \$149,138,000. About \$120,000,000 of the franchise tax was paid in the two years 1920 and 1921, when the volume of Federal Reserve earning assets was unusually large and the discount rates were at a relatively high level. Since that time the franchise tax payments have been in relatively small amount. The provision that the net earnings of Federal Reserve banks above dividend requirements be paid into surplus does not add to the profits of the member banks from their stock in the Federal Reserve bank, but merely increases the capital structure of the Reserve banks and, therefore, increases their capacity to serve commerce, industry, and agriculture. It also provides a fund out of which the Reserve banks can pay their dividends in years when their earnings are not sufficient for the purpose. The law provides that in case of liquidation the surplus of the Reserve banks, after the payment of all debts, dividends, and the par value of the stock, shall become the property of the United States.

Membership of Morris Plan banks.—Section 9 of the Federal Reserve Act was amended to make eligible for membership in the Federal

Reserve System Morris Plan banks and other incorporated banking institutions engaged in similar business.

Branches of State member banks.—Section 9 of the Federal Reserve Act was amended so as to provide that nothing therein contained shall prevent State member banks from establishing branches either in the United States or elsewhere upon the same terms and conditions as those applicable to the establishment of branches by national banks.

Membership of mutual savings banks and other banking institutions without capital stock.—Section 9 of the Federal Reserve Act was amended so as to make eligible for membership in the Federal Reserve System mutual savings banks having no capital stock and other banking institutions the capital of which consists of time deposits which are segregated from other deposits and regarded as capital stock for purposes of taxation and dividends. A mutual savings bank may be admitted to membership when it has surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place. It must subscribe for Federal Reserve bank stock (or in certain circumstances may make a deposit in lieu of such subscription) in an amount equal to six tenths of 1 percent of its total deposit liabilities, such subscription to be adjusted semiannually on the same basis.

Reports of affiliates of State member banks.—Section 9 of the Federal Reserve Act was amended so as to provide that a State member bank shall obtain from each of its affiliates, other than member banks, and furnish to the Federal Reserve bank and the Federal Reserve Board, not less than three reports of condition each year on dates identical with the reports of the affiliated member bank and such additional reports as the Reserve bank or the Board may deem necessary. The provision requiring such reports to be made is mandatory; but they are required to contain only such information as, in the judgment of the Federal Reserve Board, shall be necessary to disclose fully the relations between such affiliate and such bank and to enable the Board to inform itself as to the effect of such relations upon the affairs of such bank. The reports of affiliates are to be published by the bank under the same conditions as govern its own condition reports. A penalty is prescribed for failure to obtain and furnish any such report.

Dealings in stocks and investment securities by State member banks.—Section 9 of the Federal Reserve Act was amended so as to provide that State member banks shall be subject to the same limitations and conditions as are national banks with respect to the purchase, sale, underwriting, and holding of investment securities and stock.

Divorce of stock of State member bank from stock of other corporations.—Section 9 of the Federal Reserve Act was amended so as to provide that, after 1 year from the passage of the Banking Act of 1933, no certificate of stock of a State member bank shall represent the stock of any other corporation, except a member bank or a corporation existing when the provision takes effect engaged solely in holding the bank premises of such State member bank; nor shall the ownership or transfer of the stock certificate of such a bank be conditioned upon the ownership or transfer of a certificate of stock of another corporation except a member bank.

Right of an affiliate of a State member bank to vote stock held by it in such bank.—Section 9 of the Federal Reserve Act was amended so as to provide that each State member bank affiliated with a holding company affiliate is required to obtain from such affiliate, within a period prescribed by the Board, an agreement that the affiliate will be subject to the same conditions and limitations with respect to voting stock in the bank as are applicable in the case of holding company affiliates of national banks; and the penalty for failure so to do is forfeiture of the membership of the State bank in the Federal Reserve System. If the Board revokes the voting permit (required as stated below) of any holding company affiliate, the membership of any State member bank affiliated with it may be forfeited.

Examination of the affiliates of State member banks.—Section 9 of the Federal Reserve Act was amended so as to require such examinations of affiliates of State member banks to be made in connection with the examination of such banks as shall be necessary to disclose fully the relations between such banks and their affiliates and the effect of such relations. The expenses of such examinations may, in the discretion of the Board, be assessed against the bank examined; and, in the event of the refusal of the affiliate to give information or to permit an examination, or in the event of the failure of the bank to pay the cost thereof, the membership of the bank may be forfeited.

Terms of Federal Reserve Board members.—Section 10 of the Federal Reserve Act was amended so that, upon the expiration of the term of any appointive member of the Federal Reserve Board in office on June 16, 1933, the term of his successor shall be fixed by the President at not more than 12 years in such manner as to provide for the expiration of the term of not more than one appointive member in any 2-year period, and thereafter each appointive member shall hold office for a term of 12 years from the expiration of the term of his predecessor.

Offices of the Federal Reserve Board.—The provision of section 10 of the Federal Reserve Act that the Secretary of the Treasury may assign offices in the Treasury Department for the use of the Board was repealed.

Other provisions regarding the Federal Reserve Board.—Section 10 of the Federal Reserve Act was also amended so as to provide expressly that the principal offices of the Federal Reserve Board shall be in the District of Columbia. At meetings of the Board, the Secretary of the Treasury shall preside as chairman; in his absence, the Governor shall preside; in the absence of both, the Vice Governor; and in the absence of all three, the Board shall elect a member to act as chairman pro tempore. Provision was also included to make clear the right of the Federal Reserve Board to leave its funds on deposit with the Federal Reserve banks and the Board's powers with respect to the funds derived from the assessments levied on the Federal Reserve banks for the purpose of defraying its expenses. It was also provided that the certification of a Board member that he is not an officer, director, or stockholder of any bank is to be filed with the Secretary of the Board instead of with the Secretary of the Treasury.

Loans by member banks on stock or bond collateral.—Section 11 (m) of the Federal Reserve Act was amended to provide that, upon the affirmative vote of six members, the Federal Reserve Board may fix the percentage of individual bank capital and surplus in each Federal Reserve district which may be represented by loans secured by stock or bond collateral made by member banks in such district. No such loan shall be made by a member bank to any person in an amount in excess of 10 percent of its unimpaired capital and surplus. Such percentages, which may be changed from time to time upon 10 days' notice, are to be fixed with a view of preventing the undue use of bank loans for the speculative carrying of securities. The Board may direct any member bank to refrain from increasing such loans, for 1 year or less, under penalty of suspension of rediscount privileges.

Federal Open-Market Committee.—A new section, 12A, was added to the Federal Reserve Act creating a Federal Open-Market Committee consisting of 12 members, one being appointed by each Federal Reserve bank. Their meetings, held at least four times a year, may be attended by the members of the Federal Reserve Board. No Federal Reserve bank may engage in open-market operations except in accordance with regulations of the Federal Reserve Board, which shall be transmitted to the committee and to the Federal Reserve banks. Open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing on the general credit situation. If a Federal Reserve bank shall decide not to participate in open-market operations recommended and approved as provided in this section, it shall notify the committee and the Board.

Federal Deposit Insurance Corporation.—A new section was added to the Federal Reserve Act, section 12B, creating a Federal Deposit Insurance Corporation and providing for the insurance of deposits in member banks of the Federal Reserve System and also in nonmember

banks under certain conditions and limitations. The law provides that the Federal Reserve banks shall purchase stock in the Federal Deposit Insurance Corporation in an amount equal to one half of the Reserve banks' surplus as of January 1, 1933. Since the deposit insurance is administered by the Federal Deposit Insurance Corporation no detailed statement of the statutory provisions on this subject is set forth here.

Loans on member banks' collateral notes.—Section 13 of the Federal Reserve Act was amended so as to increase the maximum maturity of advances to member banks on their promissory notes secured by paper eligible for rediscount or for purchase by Federal Reserve banks from 15 to 90 days. The maximum maturity of 15 days on advances on member banks' notes secured by Government bonds or obligations of Federal intermediate credit banks was not changed. If a member bank, while indebted to a Federal Reserve bank on such a 15-day or 90-day collateral note and despite a warning of the Federal Reserve bank or the Federal Reserve Board, increases its outstanding collateral loans or loans to securities dealers for the purpose of purchasing or carrying stocks or investment securities (except obligations of the United States), its note shall be immediately due and payable and the member bank shall be ineligible to borrow on such a 15-day or 90-day note for a period determined by the Board.

Foreign transactions of Federal Reserve banks.—Section 14 of the Federal Reserve Act was amended to provide that all relationships and transactions by Federal Reserve banks with foreign bankers shall be subject to special supervision and regulation by the Federal Reserve Board; that negotiations with foreign bankers shall not be conducted without the permission of the Board; that the Board may be represented in any such negotiations; and that a full report of all such negotiations shall be made to the Board in writing.

Member banks as mediums in making loans on collateral.—Section 19 of the Federal Reserve Act was amended so as to forbid a member bank to act as the medium or agent of any nonbanking corporation, partnership, or individual in making loans on the security of stocks, bonds, and other investment securities to brokers or dealers in such securities, and a fine is provided for violation.

Interest on deposits of member banks.—Section 19 of the Federal Reserve Act was amended so as to provide that no member bank shall pay interest on any demand deposit, except in accordance with then existing contracts; but this provision does not apply to a deposit which is payable only at an office of the bank located in a foreign country and does not apply to a deposit made by a mutual savings bank nor to a deposit of public funds made by any State, county, municipality, or school district or other subdivision, with respect to which payment of interest is required under State law. The Federal

Reserve Board shall limit the rate of interest to be paid on time deposits. No member bank shall pay any time deposit before its maturity, or waive a requirement of notice before payment of a savings deposit except when such requirement is waived as to all savings deposits subject thereto.

Loans by member banks to executive officers.—Section 22 of the Federal Reserve Act was amended so as to forbid a member bank to loan to its executive officers and to forbid them to borrow from the bank; but loans of this kind theretofore made may be renewed or extended not more than 2 years from June 16, 1933. An executive officer of a bank who borrows from any other bank is also required to make a written report thereof to the chairman of the board of directors of his bank. Violation of this provision is made a misdemeanor, subject to fine or imprisonment.

Loans to or investments in stock of affiliates.—A new section, 23A, was added to the Federal Reserve Act which provides that no member bank shall make any loan or extension of credit to, or purchase securities under repurchase agreements from, any of its affiliates, or invest in the stock or obligations of such affiliates, or accept such stock or obligations as security for advances, if the aggregate amount thereof, in the case of any one affiliate, will exceed 10 percent of the capital stock and surplus of the member bank, or if, in the case of all such affiliates, the aggregate amount thereof will exceed 20 percent of the capital stock and surplus of such member bank. Each loan or extension of credit to an affiliate shall be secured by collateral, in the form of stocks, bonds, debentures, or other such obligations, having a market value of at least 20 percent more than the amount of the loan or extension of credit or at least 10 percent more than the amount thereof if secured by State or municipal obligations. Loans or extensions of credit secured by obligations of the United States, Federal intermediate credit banks, Federal land banks, Federal home loan banks, the Home Owners' Loan Corporation, or paper eligible for rediscount by Federal Reserve banks are excepted from the requirement as to marginal collateral. The provisions of this section do not apply to certain limited classes of affiliates.

Limitation on investment in bank premises.—A new section, 24A, was added to the Federal Reserve Act which provides that no national bank, without the approval of the Comptroller of the Currency, and no State member bank, without the approval of the Board, shall invest in bank premises, or in stock or obligations of, or make loans to or upon the security of the stock of, any corporation holding its bank premises, in an aggregate sum exceeding the amount of the bank's capital stock.

Jurisdiction of Federal courts over cases involving foreign banking transactions.—A new section, 25 (b), was added to the Federal Re-

serve Act which confers upon District Courts of the United States jurisdiction over any case to which a corporation organized under the laws of the United States is a party and which arises out of transactions involving international or foreign banking, either directly or through the agency, ownership, or control of branches or of local institutions in foreign countries.

Jurisdiction of suits by or against Federal Reserve banks.—The new section 25 (b) restores to the District Courts of the United States jurisdiction of all suits to which a Federal Reserve bank shall be a party and provides that Federal Reserve banks shall not be subject to attachment or garnishment proceedings before final judgment in any case.

Dealings in investment securities.—The Banking Act of 1933 also provides in effect that, after 1 year after the passage of the act, dealings in investment securities by a member bank shall be limited to the purchase and sale of such securities, without recourse, solely upon the order and for the account of customers, except that a member bank may purchase for its own account investment securities under limitations and restrictions prescribed by regulation of the Comptroller of the Currency; and the law provides certain other limitations and restrictions upon such investments by member banks. No member bank may purchase stock of any corporation except as otherwise permitted by law.

Capital requirements of State member banks.—Section 9 of the Federal Reserve Act was amended so as to eliminate the provision of law under which a State bank was permitted to become a member of the Federal Reserve System with a capital equal to only 60 percent of the amount required for the organization of a national bank in the place in which it is situated. The capital of State member banks now admitted to the System, therefore, must in all cases be equal to that required of national banks located in places of like size. The act contains a proviso, however, which would permit a State bank, organized when this proviso became effective, with a capital of not less than \$25,000 and located in a place of not more than 3,000 inhabitants, to become a member of the System, and also a State bank, which is located in such a place and increases its capital to \$25,000 while entitled to the insurance benefits of the act, to become a member.

Regulation of holding companies.—Under the Banking Act of 1933 shares of a member bank controlled by a holding company affiliate shall not be voted unless such affiliate shall have obtained a voting permit from the Federal Reserve Board; and in acting upon an application for such permit, the Board shall consider the financial condition of the applicant, the general character of its management and the probable effect of the granting of the permit upon the affairs of such bank. No permit shall be granted except upon the following conditions:

(a) Each such holding company affiliate shall agree: to submit to examinations, at its own expense, disclosing fully the relationship between such affiliate and such bank; that such examinations may be made of each bank owned or controlled by the affiliate; and that publication of statements of condition of such banks may be required.

(b) After 5 years after the passage of the act, every such holding company affiliate shall possess unpledged readily marketable assets other than bank stock in an amount not less than 12 percent of the par value of all bank stocks controlled by such affiliate, which amount shall be increased by not less than 2 percent annually up to 25 percent thereof and by reinvesting in such readily marketable assets net earnings in excess of 6 percent annually until such 25 percent requirement is reached.

(c) However, after 5 years after the passage of the act, where the shareholders of the affiliate are themselves liable under the double-liability provisions on the bank stock held by the affiliate, the latter shall be required only to establish, out of its net earnings in excess of 6 percent, a reserve of readily marketable assets equal to 12 percent of the par value of bank stocks controlled by it, and readily marketable assets required of such affiliate may be used for replacement of capital in, or losses incurred by, banks affiliated with it; but any deficiency so incurred shall be made up within such period as the Federal Reserve Board may prescribe.

(d) Officers, directors, agents, and employees of such a holding company affiliate shall be subject to the same penalties for false entries as officers and employees of member banks are subject to under section 5209 of the Revised Statutes.

(e) Every such holding company affiliate shall show that it does not have any interest in, and is not participating in the management of, any securities company and that it will not acquire such an interest or participation; that, if it has such an interest or participation it will, within 5 years, divest itself thereof; and that it will declare dividends only out of actual net earnings.

If any holding company affiliate violates any of the provisions of this act, the Federal Reserve Board may revoke its voting permit after notice, and thereafter no national bank whose stock is controlled by such affiliate shall receive Government deposits or pay any dividend to such affiliate.

Where such a voting permit of an affiliate has been revoked, the franchise of any national bank controlled by such an affiliate shall, in the discretion of the Federal Reserve Board, be subject to forfeiture.

Relationships between member banks and securities dealers.— Under the Banking Act of 1933, after 1 year from the date of enactment of the act, no member bank shall be affiliated with a securities corpora-

tion in the manner described in the act. A violation of this provision subjects the member bank to a penalty of \$1,000 a day, in the discretion of the Federal Reserve Board, and if the violation is continued for 6 months after warning from the Board, the bank's franchise may be forfeited, if a national bank, or its membership in the Federal Reserve System may be forfeited, if a State bank.

Receipt of deposits by securities companies and other nonbanking institutions.—It is made unlawful, after June 16, 1934, (1) for any person, corporation, or other organization engaged in the issue, underwriting, or selling of securities to receive deposits subject to check or to repayment upon presentation of a passbook or certificate; (2) for any person, corporation, or organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law, to receive deposits subject to check or to repayment upon presentation of a passbook or certificate, unless such person, corporation, or organization shall submit to periodic examination by the Comptroller of the Currency or Federal Reserve bank and shall make periodic reports of condition in the same manner and at the same time as is required of national banks. A violation of the above provisions is punishable by fine or imprisonment or both, and officers, directors, employees, or agents knowingly participating in such a violation are subject to like penalties.

Removal of bank directors or officers from office.—In the Banking Act of 1933, there is provided a procedure for the removal of a director or officer of a member bank who has continued to violate the law or has continued unsafe or unsound practices in conducting the business of the bank with which he is connected, after being warned by the Comptroller of the Currency (as to a national bank) or the Federal Reserve agent of his district (as to a State member bank) to discontinue such violations or such practices. After a hearing by the Federal Reserve Board establishing such facts, the Board may order the removal of such director or officer and a copy of such order shall be served upon him and upon the bank with which he is connected. Such order and findings of fact may not be made public or disclosed except to such director or officer and the directors of his bank, "otherwise than in connection with proceedings for a violation of this section." Participation by such officer or director in the management of such bank after having been removed is punishable by fine or imprisonment.

Board of directors of national and State member banks.—After June 16, 1934, the board of directors of every national bank and State member bank shall consist of not less than 5 and not more than 25 members and each director shall own stock having a par value of not less than \$2,500. If, however, the capital of the bank does not exceed \$50,000, a director is required to own stock having a

par value of only \$1,500, and if the capital does not exceed \$25,000 he is required to own stock having a par value of only \$1,000. The Comptroller of the Currency may appoint a receiver or conservator for a national bank which continues to violate this provision after 30 days' notice from the Comptroller, and the Federal Reserve Board may forfeit the membership of a State member bank which continues to violate the provision after 30 days' notice from the Board.

Relations of member banks with securities companies.—After January 1, 1934, no officer or director of a member bank shall be an officer, director, or manager of an organization engaged primarily in the securities business and correspondent relationships between member banks and securities organizations are prohibited, except when authorized by a permit therefor issued by the Federal Reserve Board. The Board may issue such a permit if not incompatible with the public interest, and may revoke such permit if the public interest requires.

Amendment to the Clayton Antitrust Act.—The Clayton Antitrust Act was amended by adding a new section, section 8A, to provide that after January 1, 1934, no officer, director, or employee of any bank organized or operating under the laws of the United States may be an officer, director, or employee of a corporation (other than a mutual savings bank) or member of a partnership which makes loans on stocks or bonds except to its own subsidiaries.

Amendments relating to national banks.—In addition to the provisions of the Banking Act of 1933 which are above referred to, the act contained a number of important amendments to the laws relating to national banks, among which are provisions with respect to their capital requirements, divorce of their stock from stock of other corporations, cumulative voting for directors, liability of their shareholders, branches which they may operate, consolidations with other banks and transfer of trust business upon such consolidations, rate of interest on loans, and reports and examinations of their affiliates.

RECOMMENDATIONS CONCERNING LEGISLATION

The Federal Reserve Board recommends to Congress the enactment of a number of amendments to the statutes relating to the Federal Reserve System. The amendments recommended, together with a brief statement of the reasons for the desired changes, are presented below.

Revision of reserve requirements of member banks.—The Federal Reserve Board renews its recommendation that reserve requirements of member banks of the Federal Reserve System be based not solely on the volume of deposits but also on the rapidity of their turn-over, in other words, on the extent to which the deposits are utilized. The report of the committee on bank reserves, on which the Board's recommendation is based, appeared in the Annual Report for 1932,

pages 260-285. A recent statement on the subject by Governor Black, speaking on behalf of the Board, appeared in the Federal Reserve Bulletin for April 1934.

Payment of deposits and interest thereon by member banks and by banks whose deposits are insured.—The inflexibility of the provisions of the last two paragraphs of section 19 of the Federal Reserve Act, which relate to the payment of deposits and interest thereon, in a number of instances has affected member banks and their depositors in a manner not believed to be intended by the statute and has given rise to numerous difficulties in administration. In view of the undesirable situations created thereby, it is believed that these paragraphs should be amended in a manner which will eliminate these objectionable features and at the same time will further the purposes of the present law.

The fact that the prohibition upon the payment of any time deposit before maturity admits of no exception under the law has been the cause of much inconvenience to the customers of member banks; and it is the view of the Board that the absolute prohibition of the law should be relaxed so as to permit the payment of such deposits before maturity in exceptional circumstances and in order to avoid hardships. Accordingly, it is recommended that the law be amended so as to provide that no time deposit may be paid before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Federal Reserve Board.

It is also recommended that the provisions of the last two paragraphs of section 19 of the Federal Reserve Act relating to the payment of deposits and interest thereon be amended so as to apply to every bank whose deposits are insured under the provisions of section 12B of the Federal Reserve Act. It is the view of the Board that banks which are not members of the Federal Reserve System, but the deposits of which are insured under the provisions of said section 12B, should be on the same basis as to the payment of deposits and of interest thereon as member banks of the Federal Reserve System. Under existing law banks which are members of the Federal Reserve System are subject to certain limitations and restrictions with respect to the payment of deposits and of interest thereon which are not applicable to other banking institutions whose deposits are insured under the provisions of said section 12B, and such institutions are thereby afforded a competitive advantage over member banks. The suggested amendment would place all banks whose deposits are insured under section 12B on a basis of equality in this respect.

The rates of interest customarily paid on deposits by foreign banking institutions are often in excess of the rates which may lawfully be paid by member banks of the Federal Reserve System on the same kinds of deposits, and, as a result thereof, branches of member banks

section 8A, which forbids any director, officer, or employee of any bank, banking association, or trust company, "organized or operating under the laws of the United States", to be at the same time a director, officer, or employee of a corporation (other than a mutual savings bank) or a member of a partnership "organized for any purpose whatsoever" which shall make loans secured by stock or bond collateral to any individual, association, partnership, or corporation other than its own subsidiaries.

While the purposes of this section are not entirely clear, it is believed that they are generally to prevent a too close association or community of interest between national banks and nonbanking lenders on securities and to supplement other provisions of the Banking Act of 1933 which were designed to discourage corporations engaged in commerce or industry from making loans to brokers or dealers in stocks and bonds, i.e., the so-called "brokers loans for account of others." It seeks to accomplish these objects by preventing individuals associated with organizations which make loans on the security of stock or bond collateral from serving at the same time as directors, officers, or employees of banks organized or operating under the laws of the United States.

It is not believed that this section was actually intended to prevent the same person from serving as director, officer, or employee of two or more banks; but the conclusion that it has that effect seems inescapable, because banks clearly are included in the broad term "corporation * * * organized for any purpose whatsoever" and also because the specific exception of mutual savings banks indicates that all other banks which make loans on stock or bond collateral are included. It is believed, therefore, that an amendment which would except all banks instead of mutual savings banks alone from the provisions of the section is in harmony with its real purposes and should be enacted.

Moreover, because of the very comprehensive language employed, and especially the words "corporation * * * organized for any purpose whatsoever", section 8A has been found to apply to certain other types of situations which are not believed to be within the purpose of the statute. Numerous member banks have suffered the loss of some of their most valuable directors and are threatened with the loss of others solely because such directors are officers or directors of corporations which occasionally make loans on stock or bond collateral to their own officers and employees or because they are officers or directors of corporations engaged primarily in an agricultural, industrial, or commercial business which occasionally make such loans to their own customers as an incident to their principal business. It is felt that the statute should be made inapplicable to such situations and that amendments should be adopted making exceptions

operated in places outside of the United States may lose substantial amounts of deposits unless they are permitted to meet competition by paying interest at a rate equal to that currently paid by competing foreign banking institutions. In view of these circumstances, it is the opinion of the Board that the last two paragraphs of section 19 should be amended so as to except deposits payable only at an office of a member bank located outside of the States of the United States and of the District of Columbia from the prohibition upon the payment of interest on deposits payable on demand and from the provisions relating to the payment of interest on time and savings deposits.

The laws of a number of States require the payment of interest on uninvested funds held in trust by banks; and, since trust funds awaiting investment as a practical matter must usually be available on demand and may not ordinarily be carried as time deposits, it is believed that the prohibition upon the payment of interest on deposits payable on demand should be made inapplicable to deposits of trust funds with respect to which the payment of interest is required by State law.

The present law provides that the prohibition upon the payment of interest on deposits payable on demand shall not be construed to prohibit the payment of interest by a member bank in accordance with the terms of any certificate of deposit or other contract entered into in good faith and in force on the date of enactment of the Banking Act of 1933. It is believed that the law should be amended so that this prohibition will not apply to any payment made in accordance with the terms of a bona fide contract in force on the date on which the bank becomes subject to such provisions. Such an amendment would except from the prohibition upon the payment of interest on deposits payable on demand any payment made by a bank entering the system subsequent to the enactment of the Banking Act of 1933, provided such payment is made in accordance with the terms of a contract entered into in good faith and in force on the date the bank becomes a member of the System.

In order that the provisions of the paragraphs in question may be sufficiently adaptable to meet the requirements of actual conditions it is believed that it is desirable to vest in the Federal Reserve Board specific authority to define for the purposes of such paragraphs certain terms used therein, such as "time deposits", "savings deposits", and "deposits payable on demand." In addition it is believed that the Board should be expressly authorized to prescribe such rules and regulations as may be necessary to effectuate the purposes of the paragraphs and to prevent evasions thereof.

Interlocking bank directorates under the Clayton Antitrust Act.—Section 33 of the Banking Act of 1933 amended the Clayton Antitrust Act by adding after section 8 thereof a new section, designated

covering these classes of cases and at the same time guarding carefully against any evasion of the true purposes of the law. It is believed that such amendments should include a provision making the proposed exceptions inapplicable in the case of corporations or partnerships which make loans to brokers or dealers in stocks or bonds or which make loans to finance the purchase or sale of, or trading in, stocks or bonds other than loans to their own officers and employees for the purpose of enabling them to buy stock or bonds in such corporations.

Section 8A of the Clayton Act has been interpreted by the Federal Reserve Board as not forbidding interlocking relationships between State member banks and corporations or partnerships which may make loans on the security of stock or bond collateral. This interpretation is based upon an opinion of the Attorney General with regard to a similar question arising under section 8 of the Clayton Antitrust Act. The Board feels that the purposes of section 8A will be accomplished more effectively if its provisions are made applicable to State banks which are members of the Federal Reserve System as well as to national banks. It is recommended, therefore, that the words "any bank, banking association, or trust company organized or operating under the laws of the United States" now appearing in the statute be stricken out and that there be substituted the words "any member bank of the Federal Reserve System." Incidentally this change would make the section inapplicable to Federal Reserve banks, Federal land banks, Federal intermediate credit banks, Federal home loan banks, and similar institutions, which are not believed to be within the intent of the section.

Discounts for individuals, partnerships or corporations by Federal Reserve banks.—Section 13 of the Federal Reserve Act was amended by the act of July 21, 1932, so as to add thereto a new paragraph under which the Federal Reserve Board, in unusual and exigent circumstances and by the affirmative vote of not less than five members, may authorize any Federal Reserve bank during such periods as the Board may determine to discount for any individual, partnership, or corporation notes, drafts, and bills of exchange of the kinds and maturities made eligible for discount for member banks, when endorsed and otherwise secured to the satisfaction of the Federal Reserve bank and when such individual, partnership, or corporation has been unable to secure adequate credit accommodations from other banking institutions. Pursuant to the authority of this amendment to the law, the Federal Reserve Board authorized such discounts by any Federal Reserve bank for a 6 months' period beginning August 1, 1932, and has renewed such authorization from time to time so that it has been in effect continuously and is still in effect. Under this authority, Federal Reserve banks up to May 2, 1934, had discounted

for individuals, partnerships, and corporations notes, drafts, and bills of exchange in the amount of \$1,389,000, of which \$343,000 was outstanding on that date.

On account of the requirement that paper so discounted be both endorsed and secured it has been necessary for the Federal Reserve banks to decline to make such discounts in cases where it might otherwise have been possible to do so. It frequently happens that an individual, partnership, or corporation which may be desirous of discounting paper directly with a Federal Reserve bank can furnish satisfactory endorsement of the paper to be discounted, or satisfactory security, but is unable to furnish both the endorsement and security; and in such cases the discount may not lawfully be made.

The Board believes that if the law should be changed so as to require, in the alternative, satisfactory endorsement or satisfactory security, the Federal Reserve banks would be able to extend credit to individuals, partnerships, or corporations in instances where they now have no such authority; and such a liberalization of this method of affording credit to industry would seem to be desirable under existing conditions. Inasmuch as it would still be necessary after such an amendment to the law for the borrowers to furnish either satisfactory endorsement or satisfactory security, it is believed that the Federal Reserve banks would be adequately protected in making such advances.

It is recommended, therefore, that the requirement for both endorsement and security with respect to discounts for individuals, partnerships, or corporations under the third paragraph of section 13 of the Federal Reserve Act be changed so that either endorsement and/or security of a satisfactory character will be sufficient under the law.

Advances by Federal Reserve banks to member banks in exceptional circumstances.—Section 10 (b) of the Federal Reserve Act authorizes any Federal Reserve bank in exceptional and exigent circumstances to make advances to its member banks on their time or demand notes secured to the satisfaction of such Federal Reserve bank when such member banks are without sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations through other methods provided in the Federal Reserve Act. The section was added to the Federal Reserve Act by the act of February 27, 1932, and under the authority of its provisions, as amended by subsequent acts and as extended by a proclamation signed by the President of the United States on February 16, 1934, advances may be made thereunder up to and including March 3, 1935.

The existence of the authority conferred by section 10 (b) of the Federal Reserve Act has made it possible for the Federal Reserve banks to extend to a considerable number of member banks credit

which was urgently needed to tide them over a difficult period and in some instances to prevent suspension. Up to and including May 2, 1934, advances aggregating \$303,574,000 had been made under the authority of this section to member banks located in all Federal Reserve districts. The highest amount outstanding at any one time was \$95,000,000, and on May 2, 1934, all except \$9,530,000 had been repaid.

In view of the fact that this section has enabled the Federal Reserve banks to render valuable assistance to member banks in difficulties without impairing the liquidity of the assets of the Federal Reserve banks, it is believed that the authority of the section should be made permanent. However, it is the view of the Board that loans should not be made thereunder except during periods of a banking emergency when member banks may be in unusual need of assistance and that the section should be enacted in permanent form only if an appropriate safeguard is incorporated therein to enable the Board to prevent an undue use of such credit facilities. The Board recommends, therefore, that the section be enacted in permanent form with an amendment providing that loans may not be made by Federal Reserve banks under the provisions of the said section except pursuant to authority granted by the Federal Reserve Board upon the affirmative vote of not less than five members and under rules and regulations prescribed by the Federal Reserve Board.

Receipt of deposits by other than financial institutions or private bankers.—The Board also invites attention to the desirability of a clarification of subdivision (2), paragraph (a) of section 21 of the Banking Act of 1933, which is somewhat uncertain as to meaning. This provision of the statute makes it unlawful after June 16, 1934, for any person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law, to engage in the business of receiving deposits, unless the individual or organization shall submit to periodic examination by the Comptroller of the Currency or by the Federal Reserve bank of the district and shall make and publish periodic reports of its condition.

It is not entirely clear whether a person or organization desiring to submit to periodic examination has the right to select for such purpose either the Comptroller of the Currency or the Federal Reserve bank of the district, or whether it is the intent of the law that the Comptroller of the Currency or the Federal Reserve bank shall determine which of such authorities shall be selected by a person or organization desiring to submit to examination thereunder. It should also be noted that neither the Comptroller of the Currency nor the Federal Reserve bank is given the right to take action to

require the correction of irregularities which may be disclosed by such an examination, or to exercise regulatory powers over a person or organization so submitting to examination.

The Federal Reserve Board accordingly recommends that such amendments to this provision of the law be enacted as may be necessary to clarify its meaning and provide an effective means of supervising or regulating any person or organization submitting to examination as therein provided.

Publication of reports of condition of State member banks.—The Federal Reserve Board also brings to the attention of Congress the need for an amendment to the statute to require the publication of reports of condition made by State member banks of the Federal Reserve System pursuant to the provisions of the Federal Reserve Act. The existing law contains no such requirement. Reports of condition of national banks made to the Comptroller of the Currency are required by the law to be published and the Federal Reserve Board feels that State member banks of the Federal Reserve System should be made subject to a like requirement with respect to reports rendered on dates fixed by the Federal Reserve Board. Moreover, the Federal Reserve Act, as amended by the Banking Act of 1933, requires reports of affiliates of a State member bank to be published by the bank "under the same conditions as govern its own condition reports." This provision appears to have been based upon the assumption that there was a requirement in the Federal statute for the publication of condition reports of State member banks but, as stated, there is no such requirement. In the circumstances, the Federal Reserve Board feels that it is desirable that the law be amended so as to require the publication of reports of condition of State member banks which are made to the Federal Reserve banks on dates fixed by the Federal Reserve Board.

Capital notes and debentures as part of capital funds of State banks.—The Federal Reserve Board also recommends an amendment to section 9 of the Federal Reserve Act to make it clear that the proceeds of capital notes and debentures issued by a State bank and purchased by the Reconstruction Finance Corporation shall be regarded as capital funds of such bank and as a part of its unimpaired capital for the purpose of membership of such bank in the Federal Reserve System. It is understood that among State banks which are eligible for insurance of deposits under section 12B of the Federal Reserve Act there are many whose capital would not be sufficient to make them eligible for membership in the Federal Reserve System, unless they were permitted for this purpose to count, as part of their unimpaired capital, the proceeds of notes and debentures sold to the Reconstruction Finance Corporation. Under the law, banks that are not members of the Reserve System may not continue to partici-

pate in the Federal Deposit Insurance Corporation after July 1, 1936. Many banks that may have been admitted to participation in the Federal Deposit Insurance Corporation, therefore, may have to be excluded from it on that date unless they qualify for membership in the Federal Reserve System. The Federal Reserve Board has ruled that, in view of the fact that purchases of capital notes and debentures by the Reconstruction Finance Corporation are for the sole and express purpose of strengthening the capital structure of the banks selling the notes or debentures, the proceeds of such notes and debentures may be counted as part of the banks' unimpaired capital. Since the law is not explicit on this subject, however, the Board recommends that it be clarified.

Treatment of capital notes, debentures, and subordinated deposits in certification of banks for insurance.—Subsection (e) of section 12B of the Federal Reserve Act requires the Federal Reserve Board, in the case of a State member bank, or the Comptroller of the Currency, in the case of a national bank, to certify upon the basis of a thorough examination of a bank applying for class A stock in the Federal Deposit Insurance Corporation whether or not its assets are adequate to enable it to meet all of its liabilities to depositors and other creditors as shown by the books of the bank. Many banks may not be eligible to obtain class A stock in the Federal Deposit Insurance Corporation if the holders of capital notes and debentures issued by the banks are considered "creditors" within the meaning of this provision and it is believed desirable that the statute should make it clear that holders of such capital notes and debentures are excluded from the term "creditors" as there used. In some cases also banks have entered into agreements with their depositors under which the depositors agreed to waive the right to demand payment of a part of their deposit claims until after other claims against the bank should be satisfied in an endeavor to provide for the elimination of losses in the bank. In certain of these cases the bank issued to such depositors deferred certificates under which the bank agreed to pay the depositors the amount of their deferred deposits before any distribution of assets of the bank to its stockholders, and in the event of the dissolution of the bank the holders of the deferred certificates are entitled to share in the assets of the bank after claims of other depositors and other creditors have been provided for. If the owners of such subordinated deposits are considered as "other creditors" within the meaning of subsection (e) above mentioned, such banks may not be eligible to obtain class A stock in the Federal Deposit Insurance Corporation. Accordingly, it is believed to be important that the statute should make it clear that the owners of such subordinated deposits are not to be considered as "creditors" within the meaning of the provision in question. The Federal Reserve Board, therefore, recommends that

the law be amended so as to exclude from the term "creditors" in the provision mentioned the holders of capital notes and debentures issued by the bank and the owners of subordinated deposits of the kind described.

Rate of interest charged by branches of member banks located outside of the United States.—The Federal Reserve Board also favors the enactment of an amendment to section 5197 of the Revised Statutes of the United States, relating to the rate of interest which may be charged by national banks on loans or discounts, which would permit a branch of such a bank located outside of the States of the United States and the District of Columbia to charge a maximum rate of interest on loans or discounts equal to the rate allowed by the laws of the country, territory, or possession where such branch is located. Such an amendment is believed to be desirable in order that such branches of national banks may be enabled to compete on a basis of equality with other institutions in the localities where they are situated and would be in harmony with the amendment above proposed to except from the provisions of section 19 of the Federal Reserve Act relating to the payment of deposits and interest thereon deposits which are payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

Insurance of bank deposits payable outside of the United States.—The Board also recommends an amendment to section 12B of the Federal Reserve Act, relating to the insurance of bank deposits, which would exclude, in any determination of the insured deposit liabilities of any closed bank or of the total net deposit liabilities of any bank which is a holder of class A stock of the Federal Deposit Insurance Corporation or a member of the fund provided for in subsection (y) of that section, deposits payable only at an office located outside of the States of the United States and the District of Columbia and which would render ineligible for insurance under the provisions of section 12B deposits of any bank so situated, whether or not a member of the Federal Reserve System. It is believed that such an amendment would be in harmony with the present purposes of section 12B to exclude deposits payable only at an office of a bank located in a foreign country and that it is not desirable that banks located in the United States should be required to contribute to the satisfaction of losses incurred by banks located outside of the United States.

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

Gross earnings of the Federal Reserve banks in 1933 amounted to \$49,487,000, or \$532,000 less than in 1932. After deducting current expenses of \$29,223,000—about \$2,900,000 more than for the preceding year—reserves for depreciation on bank premises, and reserves for

losses, self-insurance, etc., there remained net earnings of \$7,957,000, or \$917,000 less than the amount of dividends paid during the year. Earnings, expenses, dividend payments, etc., for all Federal Reserve banks combined for 1933 and 1932 are shown in the following table:

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1933 AND 1932

[In thousands of dollars]

	1933	1932
Total earnings.....	49,487	50,019
Current expenses.....	29,223	26,291
Current net earnings.....	20,264	23,728
Additions (profits on sales of U. S. Government securities, etc.).....	1,762	3,884
Deductions (depreciation and other reserves, etc.).....	14,069	5,298
Net deductions from current net earnings.....	12,307	1,414
Net earnings.....	7,957	22,314
Dividends paid.....	8,874	9,282
Transferred to surplus.....	-917	11,021
Franchise tax paid U. S. Government.....		2,011

The earnings of only two Reserve banks, New York and Chicago, were sufficient during 1933 to pay dividends in full without making any charge against surplus.

Gross and net earnings during the year 1933 and the distribution of net earnings of each Federal Reserve bank are shown in the following table:

FINANCIAL RESULTS OF OPERATIONS OF THE FEDERAL RESERVE BANKS DURING 1933

Federal Reserve bank	Gross earnings	Net earnings	Dividends paid	Transferred to surplus
Boston.....	\$2,774,081	\$25,617	\$645,081	-\$620,064
New York.....	17,523,930	6,197,727	3,509,873	2,687,854
Philadelphia.....	4,311,435	-318,445	950,437	-1,268,882
Cleveland.....	4,705,091	731,683	789,058	-57,375
Richmond.....	1,699,191	-328,740	308,388	-637,128
Atlanta.....	1,686,497	154,971	281,644	-126,673
Chicago.....	6,764,554	1,790,493	858,127	932,366
St. Louis.....	1,629,136	-90,766	246,643	-337,409
Minneapolis.....	1,497,669	82,085	171,569	-89,484
Kansas City.....	1,742,260	-268,275	250,321	-518,596
Dallas.....	1,251,276	-448,047	227,888	-675,935
San Francisco.....	3,902,198	429,104	634,633	-205,529
Total.....	49,487,318	7,957,407	8,874,262	-916,855

Earnings on total bills and securities were practically the same in the aggregate as in 1932, an increase of nearly \$360,000,000 in average daily holdings of bills and securities being offset by a reduction from 2.33 percent to 1.98 percent in the average rate of earnings. Average daily holdings of bills and securities, together with average rates and

amounts of earnings thereon, are shown for recent years in the following table:

EARNINGS ON BILLS AND SECURITIES

[Amounts in thousands of dollars]

	Bills and securities				
	Total	Bills discounted	Bills bought in open market	United States Government securities	All other bills and securities
Daily average holdings:					
1930.....	1,056,895	271,727	213,201	563,672	8,295
1931.....	1,251,058	326,217	245,260	669,013	10,568
1932.....	2,062,446	520,637	70,902	1,461,258	3,649
1933.....	2,421,566	283,229	82,882	2,052,160	3,295
Earnings:					
1930.....	34,365	10,672	6,081	17,273	339
1931.....	27,565	9,821	5,010	12,428	306
1932.....	47,992	17,881	2,785	26,924	402
1933.....	47,995	9,137	1,238	37,530	90
Average rate of earnings (percent):					
1930.....	3.25	3.93	2.85	3.06	4.09
1931.....	2.20	3.01	2.04	1.86	2.90
1932.....	2.33	3.43	3.93	1.84	4.17
1933.....	1.98	3.23	1.49	1.83	2.74

Current expenses of the Federal Reserve banks in 1933 were \$29,223,000, or \$2,932,000 more than in 1932. Owing to the increased demand for currency prior to the banking holiday and to the cost of printing Federal Reserve bank notes which were issued after the banking holiday, the cost of printing and redeeming Federal Reserve currency increased about \$900,000. Current expenses for 1933 also include the tax on Federal Reserve bank notes amounting to \$506,000. Smaller increases were reported for salaries, for postage and expressage, for printing and stationery, for traveling expenses, for telephone and telegraph service, for assessments for Federal Reserve Board's expenses, for insurance, and for certain other items. These increases were largely the result of increased work during and after the banking holiday and to the increased responsibilities and duties of the Federal Reserve Board and the Federal Reserve banks under the Banking Act of 1933.

The average number of officers and employees, exclusive of those assigned to the Reconstruction Finance Corporation unit, increased from 9,283 in 1932 to 10,015 in 1933, largely in consequence of modifications in hours of employment and to a large increase in work of some of the departments, notably the Federal Reserve agent's department, in connection with the licensing and reorganization of banks. There was also a substantial increase in the volume of work in the collection and fiscal agency (Treasury) departments. During the year the Federal Reserve banks had an average of 1,114 officers and employees engaged on work of the Reconstruction Finance Corporation.

The volume of work handled in the principal operating departments of the banks for which a measurement is available, during each of the past 4 years, was as follows:

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS

	1930	1931	1932	1933
NUMBER OF PIECES HANDLED ¹				
Bills discounted:				
Applications.....	2 96, 000	2 109, 000	178, 000	81, 000
Notes discounted.....	415, 000	513, 000	779, 000	346, 000
Bills purchased in open market for own account.....	208, 000	221, 000	76, 000	79, 000
Currency received and counted.....	2, 441, 989, 000	2, 269, 292, 000	2, 025, 552, 000	2, 013, 459, 000
Coin received and counted.....	3, 325, 555, 000	2, 900, 462, 000	2, 654, 787, 000	2, 497, 928, 000
Checks handled.....	904, 975, 000	864, 615, 000	734, 538, 000	688, 933, 000
Collection items handled:				
United States Government coupons paid.....	19, 362, 000	17, 322, 000	17, 710, 000	18, 099, 000
All other.....	6, 388, 000	6, 927, 000	7, 468, 000	8, 371, 000
United States Government securities—issues, redemptions, and exchanges by fiscal agency department.....	2 1, 412, 000	2 2, 431, 000	2 1, 956, 000	3, 502, 000
Transfers of funds.....	1, 868, 000	1, 663, 000	1, 469, 000	1, 290, 000
AMOUNTS HANDLED				
Bills discounted.....	\$14, 067, 117, 000	\$14, 555, 590, 000	\$18, 648, 306, 000	\$9, 632, 808, 000
Bills purchased in open market for own account.....	3, 873, 698, 000	2, 998, 415, 000	762, 755, 000	898, 001, 000
Currency received and counted.....	14, 262, 809, 000	12, 668, 638, 000	10, 952, 597, 000	11, 710, 364, 000
Coin received and counted.....	537, 534, 000	585, 945, 000	360, 295, 000	624, 617, 000
Checks handled.....	324, 883, 021, 000	248, 172, 956, 000	176, 591, 791, 000	157, 833, 692, 000
Collection items handled:				
United States Government coupons paid.....	499, 111, 000	479, 960, 000	529, 086, 000	578, 082, 000
All other.....	7, 528, 014, 000	7, 321, 814, 000	5, 427, 817, 000	5, 539, 659, 000
United States Government Securities—issues, redemptions, and exchanges by fiscal agency department.....	2 7, 084, 080, 000	2 17, 348, 971, 000	2 19, 444, 110, 000	24, 622, 726, 000
Transfers of funds.....	198, 880, 880, 000	162, 095, 081, 000	116, 040, 041, 000	85, 059, 151, 000

¹ Two or more checks, coupons, etc., handled as a single item, are counted as 1 "piece."

² Revised.

BUILDING OPERATIONS OF FEDERAL RESERVE BANKS

Construction of an addition to the building occupied by the Federal Reserve Bank of Philadelphia, which was begun in September 1932, was continued throughout 1933. At the end of 1933 all Federal Reserve banks were housed in buildings owned by them, as were all Federal Reserve branches, except those at Cincinnati, Charlotte, Portland, Seattle, and Spokane.

BRANCHES AND AGENCIES OF FEDERAL RESERVE BANKS

The 25 branches and 2 agencies of the Federal Reserve banks which were in operation at the end of 1932 continued to function throughout the year 1933. The following table shows a comparison of the volume of work handled in certain departments during the years 1930, 1931, 1932, and 1933.

VOLUME¹ OF OPERATIONS OF FEDERAL RESERVE BRANCHES AND AGENCIES

	1930	1931	1932	1933
Checks handled:				
Number-----	265,300,000	245,416,000	205,505,000	193,799,000
Amount-----	\$62,834,956,000	\$48,079,197,000	\$34,048,272,000	\$33,618,776,000
Currency received and counted:				
Number of pieces-----	531,697,000	522,933,000	470,285,000	472,870,000
Amount-----	\$3,106,716,000	\$2,565,552,000	\$2,222,943,000	\$2,543,130,000
Coin received and counted:				
Number of pieces-----	572,611,000	593,425,000	574,622,000	526,189,000
Amount-----	\$84,394,000	\$72,550,000	\$71,273,000	\$126,211,000

¹ Two or more checks, etc., handled as a single item, are counted as 1 "piece."

Current expenses during 1933 of the branches and agencies amounted to \$5,834,000, compared with \$5,613,000 during 1932.

BANK EXAMINATIONS

The Board's division of examinations conducted one examination of each Federal Reserve bank during the year.

The head office of the only banking corporation now in operation organized to engage in foreign and international banking business, under the provisions of section 25 (a) of the Federal Reserve Act, generally referred to as the Edge Act, was examined during the year.

TRUST ACTIVITIES OF NATIONAL BANKS

The Board in 1933 approved 41 original and 2 supplementary applications by national banks for permission to exercise fiduciary powers under the provisions of section 11 (k) of the Federal Reserve Act. Two thousand sixty-four national banks, including banks operating under conservatorships, were holding permits to act in fiduciary capacities on December 31, 1933.

Five national banks during the year 1933 surrendered their rights to exercise trust powers under the provisions of section 11 (k) of the Federal Reserve Act.

A list of national banks holding permits to exercise trust powers on December 31, 1933, is printed on pages 359-380.

CHANGES IN MEMBERSHIP

During the year 1933 the number of member banks decreased from 6,816 to 6,523, a net reduction of 293 as compared with a net reduction of 430 the year before. Membership on March 15, 1933, the end of the banking holiday, included 4,507 licensed and 1,400 unlicensed national banks, and 571 licensed and 221 unlicensed State banks, representing a decrease between January 1 and March 15, 1933, of 104 in the number of national banks and 13 in the number of State banks. Between March 15 and the end of the year there was a de-

cline of 176 in the number of member banks, as a result of a decrease of 301 in the number of national banks, partly offset by an increase of 125 in the number of State banks. At the end of 1933 membership included 5,154 licensed and 452 unlicensed national banks and 857 licensed and 60 unlicensed State banks.

The decline in the number of member banks was the result largely of the suspension of 89 banks from January 1 to March 15, and the liquidation of 511 unlicensed member banks from March 16 to the end of the year. These decreases were partly offset by the organization of 249 new national banks, resulting mainly from the reorganization of unlicensed national banks after the banking holiday, and the admission of 237 State banks to membership.

At the end of December 1933 loans and investments of licensed member banks constituted approximately 83 percent of the total loans and investments of all banks, exclusive of mutual savings banks, as compared with 80 percent at the end of 1932 and 77 percent at the end of 1931.

CHANGES IN THE NUMBER OF NATIONAL AND STATE BANK MEMBERS DURING 1933

	National	State member	Total
Number of member banks on Jan. 1, 1933.....	6,011	805	6,816
Additions to membership:			
Organizations of national banks (including successions and conversions).....	249		249
Admissions of State banks.....		237	237
Resumptions following suspension.....	15	1	6
Total additions.....	254	238	492
Decreases in membership:			
Withdrawals of State banks.....		42	42
Suspensions, Jan. 1 to Mar. 15.....	66	23	89
Mergers, absorptions, consolidations, liquidations, and receiverships.....	593	61	654
Total decreases.....	659	126	785
Net increase or decrease.....	-405	+112	-293
Number of member banks on Dec. 31, 1933:			
Licensed.....	5,154	857	6,011
Unlicensed.....	¹ 452	60	512
MEMORANDUM—UNLICENSED MEMBER BANKS			
Number on Mar. 15, 1933.....	1,400	221	1,621
Changes Mar. 16 to Dec. 31, 1933:			
Add: Licenses revoked.....	17	17	14
Deduct:			
Unlicensed banks licensed.....	489	87	576
Liquidations and receiverships ²	⁴ 466	45	⁴ 511
Withdrawals of State banks.....		36	36
Number on Dec. 31, 1933.....	² 452	60	512

¹ Includes 1 bank placed in conservatorship after the banking holiday which had suspended prior to that time.

² Includes 16 national banks whose Federal Reserve bank stock had been canceled and membership terminated but which, at the end of the year, were still included in the Comptroller of the Currency's records of unlicensed national banks.

³ Includes unlicensed banks absorbed or succeeded by other banks.

⁴ Includes 2 banks placed in receivership subsequent to revocation of license.

FEDERAL RESERVE INTERDISTRICT COLLECTION SYSTEM

At the end of 1933 there were 13,677 banks (licensed and unlicensed) on the Federal Reserve par list, comprising all member banks (6,523) and 7,154 nonmember banks that pay, without deduction of exchange charges, such checks drawn upon them as are presented or forwarded for payment by the Federal Reserve banks. During the year the number of nonmember banks on the par list decreased by 960—largely as a result of the reduction in the number of banks in operation—and the number not on the par list by 351. Of the 2,695 banks not on the par list at the end of 1933, 1,465 were located in 11 Southern States and 1,086 in 6 West North Central States and the adjoining State of Wisconsin. As will be seen from the following table, all of the banks in the Boston, New York, and Philadelphia districts, and all but 3 in the Cleveland district, were on the Federal Reserve par list:

INTERDISTRICT COLLECTION SYSTEM

[Number of banks at end of December]

Federal Reserve district	Member banks		Nonmember banks			
	1933 ¹	1932	On par list		Not on par list ¹	
			1933 ¹	1932	1933 ¹	1932
United States.....	6,523	6,816	7,154	8,114	2,695	3,046
Boston.....	367	367	209	221	3	5
New York.....	808	827	300	333	338	366
Philadelphia.....	671	693	281	303	637	705
Cleveland.....	621	630	696	764	3	5
Richmond.....	400	392	352	425	338	366
Atlanta.....	330	323	109	134	137	251
Chicago.....	692	792	1,986	2,200	377	409
St. Louis.....	403	429	1,002	1,112	704	818
Minneapolis.....	532	545	429	322	199	224
Kansas City.....	748	785	1,256	1,422	421	220
Dallas.....	549	584	365	421	211	220
San Francisco.....	402	449	349	457	39	48

¹ Figures cover all incorporated banks (other than mutual savings banks).² Includes unlicensed banks; licensing began Mar. 13, 1933.

ADDITIONS TO AND CHANGES IN THE FEDERAL RESERVE BOARD'S REGULATIONS

Under the provisions of the Banking Act of 1933, the Federal Reserve Board was authorized to issue regulations on a number of subjects with respect to which it had not theretofore issued regulations or which had not been within the scope of its authority. Pursuant to these provisions of the Banking Act of 1933, the Federal Reserve Board issued its Regulation M, relating to open-market operations of Federal Reserve banks; its Regulation N, regarding relations of Federal Reserve banks with foreign banks and bankers; its Regulation P, with respect to holding company affiliates and

voting permits; its Regulation Q, relating to the payment of deposits and interest thereon by member banks; and its Regulation R, regarding relationships of member banks with dealers in securities. Also, pursuant to the provision of the Banking Act of 1933 which added a new section, 8A, to the Clayton Antitrust Act, the Board revised its Regulation L regarding interlocking bank directorates and other relationships under the Clayton Act. The text of the regulations mentioned is printed on pages 296-318.

ADMINISTRATION OF SECTIONS 8 AND 8A OF THE CLAYTON ANTITRUST ACT

The Banking Act of 1933 added a new section, 8A, to the Clayton Antitrust Act, under which, after January 1, 1934, no director, officer, or employee of any bank, banking association or trust company organized or operating under the laws of the United States may be at the same time a director, officer, or employee of a corporation (other than a mutual savings bank) or a member of a partnership organized for any purpose whatsoever which shall make loans secured by stock or bond collateral other than to its own subsidiaries. The prohibitory provisions of this section are in addition to those contained in section 8 of the Clayton Act. Under the latter section, however, the Federal Reserve Board is authorized subject to certain conditions to grant permits if, in its judgment, it is not incompatible with the public interest, covering relationships of the kind prohibited by the provisions of the Clayton Act between banks, banking associations or trust companies; and, during the year 1933, the Federal Reserve Board acted upon the applications of 151 persons for permits to serve at the same time as director, officer, or employee of more than one bank, banking association, or trust company where such service was, without such a permit, within the prohibitory provisions of the law.

REDUCTIONS IN CAPITAL STOCK OF MEMBER BANKS

During the year 1933 the Board acted upon applications of 261 member banks for permission to reduce the amount of their capital stock. Two hundred and fifty-six of these applications were from national banks and 253 were approved. Five were from State member banks and all these were approved. In practically all cases these were reductions of common stock made in connection with the issuance of preferred stock or capital notes or debentures, the funds released through the reduction of common stock being used to cover losses and undesirable assets.

APPLICATIONS FOR VOTING PERMITS BY HOLDING COMPANY AFFILIATES

Under the provisions of the Banking Act of 1933 shares of a member bank controlled by any holding company affiliate of such bank may not be voted unless such holding company affiliate shall have first obtained a voting permit from the Federal Reserve Board. The Board is required to consider, in acting upon an application for such a permit, the financial condition of the applicant, the general character of its management, and the probable effect of the granting of the permit upon the affairs of the bank, and may grant or withhold a permit as the public interest may require; but may not grant such a permit except upon certain conditions specified in the law.

Prior to January 1, 1934, the Federal Reserve Board acted upon 49 applications for voting permits submitted in accordance with this provision of law. All other applications filed prior to January 8, 1934, were acted upon before January 9, 1934, the date for regular annual shareholders' meetings of national banks. On account of the large number of banks and the great amount of detail involved in these applications, and the fact that most of the applications were filed during the latter part of 1933, the Board found it advisable to grant permits to vote the stock of the member banks for certain limited purposes or for certain limited periods only and reserved for further consideration the issuance of general permits in such cases.

MEETINGS OF FEDERAL ADVISORY COUNCIL

Four meetings of the Federal Advisory Council were held in Washington during 1933 on the following dates: February 21, May 16, September 19, and November 21.

ORGANIZATION, STAFF, AND EXPENDITURES

On March 4, 1933, William H. Woodin, of New York, succeeded Ogden L. Mills, of New York, as Secretary of the Treasury and as ex-officio chairman of the Federal Reserve Board. Mr. Mills had been Secretary of the Treasury since February 12, 1932.

On May 11, 1933, J. F. T. O'Connor, of California, was appointed Comptroller of the Currency and, as such, became an ex-officio member of the Federal Reserve Board.

The resignation tendered on March 24, 1933, by Eugene Meyer, of New York, as member and Governor of the Federal Reserve Board was accepted as of May 10, 1933. Mr. Meyer had been Governor of the Board since September 16, 1930.

Effective May 19, 1933, Eugene R. Black, of Georgia, was appointed a member of the Federal Reserve Board for the unexpired portion of the term ending August 9, 1938, and was designated as Governor of the Board, succeeding Mr. Meyer.

The term of Wayland W. Magee, who had been a member of the Federal Reserve Board since May 18, 1931, expired on January 24, 1933.

On June 14, 1933, J. J. Thomas, of Nebraska, and M. S. Szymczak, of Illinois, assumed office as members of the Federal Reserve Board under appointments for the unexpired portions of the 10-year terms ending January 24, 1943, and April 18, 1943, respectively.

Floyd R. Harrison, assistant to the Governor of the Federal Reserve Board, tendered his resignation as of the close of business on May 15, 1933, and it was accepted by the Board. On May 18, 1933, the Board appointed E. M. McClelland, formerly assistant secretary, as assistant to the Governor to succeed Mr. Harrison. Mr. McClelland died on July 27, 1933, and effective August 16, 1933, H. Warner Martin was appointed assistant to the Governor, succeeding Mr. McClelland.

On May 18, 1933, S. R. Carpenter was appointed Assistant Secretary of the Federal Reserve Board succeeding Mr. McClelland in that office.

Effective August 22, 1933, L. P. Bethea was appointed Assistant Secretary of the Federal Reserve Board.

Effective August 16, 1933, Oliver E. Foulk, formerly deputy fiscal agent, was appointed fiscal agent of the Federal Reserve Board and J. C. Noell, formerly assistant secretary and fiscal agent, continued as assistant secretary. Effective August 16, 1933, Miss Josephine E. Lally was appointed deputy fiscal agent of the Federal Reserve Board, succeeding Mr. Foulk.

H. Lee Boatwright, Jr., was appointed assistant counsel to the Federal Reserve Board, effective May 3, 1933. J. Delafield DuBois was appointed assistant counsel to the Federal Reserve Board, effective September 21, 1933. Alfred K. Cherry was appointed assistant counsel to the Federal Reserve Board, effective October 16, 1933.

The total cost of conducting the work of the Board during the year 1933 was approximately \$882,890. Two assessments were levied against the Federal Reserve banks aggregating \$800,159.66, or slightly less than one fifth of 1 percent of their average paid-in capital and surplus for the year.

ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

Outstanding developments in the monetary and banking field in 1934, the year covered by this the Twenty-first Annual Report of the Federal Reserve Board, were revaluation of gold at a rate of \$35 per ounce; a large volume of gold imports; expansion of bank deposits, reflecting chiefly Government spending; and further progress in the work of rehabilitating the banking structure. As a result of large gold imports during the year, reserve balances held by member banks of the Federal Reserve System rose to a new high level. Notwithstanding an increase in reserves required as a result of the increase in deposits, balances held by member banks in excess of requirements rose to the highest level on record.

Federal Reserve bank holdings of United States Government securities remained unchanged during the year, while their holdings of discounts and acceptances declined to a small figure, reflecting the abundance of reserves which enabled member banks to repay borrowings at the Reserve banks and created a market outside of the Reserve banks for all available acceptances.

In line with general declines in money rates, most of the Federal Reserve banks reduced their discount rates in the early part of 1934 and again in the last few weeks of that year or the early weeks of 1935. On February 1, 1935, the rates were 1½ percent at 1 Reserve bank, 2 percent at 7 banks, and 2½ percent at 4, whereas at the beginning of 1934 the established rates ranged from 2 percent to 3½ percent, with 5 banks at the highest of these levels. In December the Federal Reserve Board fixed at 2½ percent the maximum rate of interest that member banks may pay on time and savings deposits after January 31, 1935. This was a reduction from 3 percent, the rate in effect since November 1933.

Developments in 1934 were all in the direction of easier credit conditions. The expansion in excess reserves during the year, which was caused chiefly by gold imports, was not accompanied by an increase in bill or security holdings of the Federal Reserve banks that could be sold for the purpose of absorbing the excess reserves, if that should become desirable. With this limitation on the System's power to reduce member bank reserves by the sale of assets in the open market, the System's ability to restrict credit expansion, if it should become excessive, rests chiefly on new powers conferred upon

it by recent legislation. Among these are the power in an emergency and with approval of the President to raise reserve requirements of member banks, provided in the act of May 12, 1933; authority to restrain speculative activities of member banks under different provisions of the Banking Act of 1933; and control of margin requirements on security loans by brokers and by banks, granted by the Securities Exchange Act of 1934.

Duties and activities of the Board and of the Federal Reserve banks have been considerably enlarged by legislation passed during recent years, and a large part of the work of the System in 1934 arose out of this new legislation. These additional duties were imposed by the Banking Act of 1933, the Securities Exchange Act of 1934, and an act permitting direct loans for industrial purposes by Federal Reserve banks.

Federal Reserve banks were authorized by an act of Congress approved June 19, 1934, to make advances within prescribed limitations for the purpose of providing working capital to established industrial and commercial enterprises. Special efforts were made by the Federal Reserve banks to discover needs for such loans and to give prompt attention to applications. By the end of the year more than \$50,000,000 of applications for advances and for commitments to make advances had been approved by the Federal Reserve banks, \$15,000,000 had been disbursed under these approved applications, and \$10,000,000 of commitments were outstanding.

The Banking Act of 1933 increased in various respects the scope of the Federal Reserve Board's authority over the activities of member banks. Under this act holding company affiliates of member banks are required to obtain from the Board permits to vote stock in member banks; as a consequence of broadening the scope of the provisions of the Clayton Act governing interlocking directorates the Board was required to pass upon a largely increased number of applications; and it was also required to pass upon interlocking directorates and correspondent relationships between member banks and dealers in securities. Many questions arising in connection with the separation of security company affiliates from banks have been referred to the Federal Reserve banks and to the Board. Examinations and other preparations were made by the Board and Federal Reserve agents, under provisions of the Banking Act of 1933, to certify State member banks for participation in the permanent plan of the Federal deposit insurance fund, but in view of the extension of the temporary deposit insurance fund for 1 year the Board was not called upon for such certifications in 1934. A number of private banks, subject to examination under the Banking Act of 1933, have elected to be examined by Federal Reserve banks.

The Securities and Exchange Act imposed new duties on the Federal Reserve Board in connection with the fixing of margin requirements and the regulation of loans made for the purpose of purchasing and carrying securities. In September the Board issued a regulation (regulation T) on this subject.

In addition to these new activities of the Board it has had to pass upon numerous reorganizations of member banks and applications for reduction of capital stock. Reorganizations of national banks have often necessitated new applications to the Board for the performance of trust powers. Performance of fiscal agency and other duties for the United States Treasury Department and various governmental credit agencies also increased the work of the Federal Reserve banks in 1934.

By the end of 1934 banks closed during the bank holiday in March 1933 had nearly all been licensed to resume operations, reorganized, or placed in the hands of receivers for liquidation. The number of active banks belonging to the Federal Reserve System increased in 1934 by 431, in consequence of the licensing of additional banks, the organization of new national banks, and the entrance of nonmember banks into the System. The reopening of banks was facilitated by purchases of preferred stock and capital notes and debentures by the Reconstruction Finance Corporation, and the Corporation also hastened the paying off of depositors of closed banks by making loans on the remaining assets of these banks. The number of suspensions of licensed banks in 1934 was smaller than for any year since 1920. During the year most of the commercial banks in the country became members of the Federal Deposit Insurance System.

Under the terms of the Gold Reserve Act of 1934, on January 30 title to all gold held by the Federal Reserve banks was transferred to the United States Government at a valuation of \$20.67 an ounce in exchange for an equivalent amount of gold certificates. On January 31 the President by proclamation reduced the weight of the gold dollar from 25.8 grains to $15\frac{5}{16}$ grains of gold nine-tenths fine, thereby establishing the gold content of the dollar at 59.06 percent of its former weight and raising the price of gold from \$20.67 to \$35 a fine ounce. The resulting increase in the value of gold held by the United States, amounting to about \$2,800,000,000, accrued to the Treasury. The Secretary of the Treasury announced that beginning February 1 he would be prepared until further notice to purchase gold and under certain conditions to sell gold for export at the new price.

As a result of revaluation of the dollar, of the inclusion of gold purchased in previous weeks by the Government, and of large gold imports after January, the monetary gold stock of the United States increased in 1934 by \$4,200,000,000. Imports of gold from abroad

reflected in part an excess of merchandise exports and in part a flow of capital to this country.

Member bank reserve balances increased by about \$1,400,000,000 during the year, of which \$450,000,000 was absorbed in meeting increased reserve requirements arising from the growth in bank deposits. Reserves in excess of legal requirements rose to nearly \$1,800,000,000, an increase of about \$950,000,000 during the year.

Member banks employed a part of their available funds in increasing their investments, principally their holdings of United States Government securities. Holdings of open-market commercial paper and acceptances also increased somewhat, but repayment of customers' loans continued to exceed new loans made.

Deposits at member banks, exclusive of interbank and United States Government deposits, increased by about \$4,000,000,000 during 1934. The increase in deposits, other than bankers' deposits, was relatively larger at banks in small towns and in the agricultural sections of the country than at banks in larger cities. Country banks, however, having no direct access to the open market, held a larger proportion of their new deposits as idle balances, while city banks invested a somewhat larger proportion of the increase in their deposits in Government securities and open-market paper.

The abundance of funds seeking employment was reflected in continued declines in interest rates, which at the beginning of 1934 were already at exceptionally low levels. Open-market rates on 90-day bankers' acceptances declined to one-eighth of 1 percent, and rates charged customers by banks in financial centers throughout the country declined to new low levels for the post-war period. Yields on long-term Treasury bonds declined to below 3 percent and yields on high-grade corporate bonds were at approximately the lowest levels of this century.

New issues of corporate securities continued to be in small volume during 1934. Issues by States and local governments increased considerably and were substantially larger than in 1933 and somewhat larger than in 1932. Issues by the Federal Government and its agencies were larger than in any year since the war, far exceeding in amount all other new securities offered in the year. Prices of high-grade bonds advanced, while stock prices showed little change.

Volume of production and trade for the year 1934 as a whole was larger than in 1933 and at the end of the year was at a higher level than at the beginning. Output of industrial products and employment in factories showed wide fluctuations during the year, although the movements were narrower than in 1933. Crop production, which had been relatively well maintained throughout the depression, showed a marked reduction in 1934 as a consequence of prolonged drought and of acreage reductions, but with higher prices, increased marketings of livestock, and Govern-

ment rental and benefit payments farm income was larger than in 1933. Construction work on public projects showed a considerable increase, while private construction continued in small volume. Retail trade increased in the course of the year and was considerably larger in rural areas than in 1933. Wholesale prices of agricultural products and foods advanced sharply in 1934, as in 1933, while prices of other commodities showed little change from the level reached at the end of 1933, which was higher than at the beginning of that year.

GOLD AND SILVER IN 1934

Important factors in the monetary situation in 1934 were legislative enactments and administrative measures in reference to gold and silver. Among these were the enactment of the Gold Reserve Act, the subsequent revaluation of the dollar, the passage of the Silver Purchase Act, and the acquisitions of silver under authority of this act.

The provisions of the Gold Reserve Act of 1934 are summarized in a subsequent section of this report. The act was passed and approved on January 30, 1934, and on that date title to gold held by the Federal Reserve banks was transferred to the United States Government.

The President's proclamation of January 31, 1934.—By virtue of the powers granted in the act approved May 12, 1933, as amended by the Gold Reserve Act of 1934, the President issued a proclamation on January 31, reducing the weight of the gold dollar from 25.8 grains to $15\frac{1}{2}$ grains of gold nine-tenths fine. In the proclamation the President reserved the right, within the limits prescribed by the law, to alter or modify the weight of the gold dollar as the interest of the United States might require. On January 31 the mints were authorized by the Treasury regulations issued under the Gold Reserve Act of 1934 to purchase (a) gold recovered from natural deposits in the United States or any place subject to the jurisdiction thereof, which shall not have entered into monetary or industrial use, (b) unmelted scrap gold, and (c) gold imported into the United States after January 30, 1934. Purchases were to be made at the rate of \$35 per fine troy ounce less a handling charge of $\frac{1}{4}$ percent and the usual mint charges. The Secretary of the Treasury stated that whenever our exchange rates with gold standard currencies should reach the gold export point he would, until further notice, also sell gold for export to foreign central banks at the rate of \$35 per fine troy ounce plus a handling charge of $\frac{1}{4}$ percent. Most of the purchases of imported gold as well as sales of gold for export were to be made through the Federal reserve Bank of New York as fiscal agent of the United States.

Increase in monetary gold stock of the United States.—Reduction in the gold content of the dollar immediately increased the value of the reported gold holdings of the Treasury by approximately \$2,800,-

000,000. At the same time the reported monetary gold stock of the country was further increased by the addition of about \$200,000,000 of gold purchased by the Government in connection with its gold-buying program of previous months. At the outset these increases in the gold stock of the country were retained as an addition to the cash holdings of the Treasury and had no effect upon Federal Reserve bank or member bank reserves. During the remainder of the year, however, the Treasury transferred some of this additional gold to the Federal Reserve banks in the form of gold certificate credits, thus increasing its deposits with Federal Reserve banks. As these deposits were reduced by Treasury expenditures in the course of the year, member banks obtained additional reserve funds.

In the months following revaluation there were large imports of gold, as well as substantial purchases of newly produced and other domestic gold. In the course of the year the gold stock was increased by a total amount of \$4,202,000,000, comprising the increment of \$2,812,000,000 resulting from revaluation, \$1,217,000,000, of net imports and releases from earmark, including imports of gold purchased by the Government prior to January 31, 1934, and \$174,000,000 obtained from production, Government holdings in this country not previously reported, return of coin by the public, purchases of scrap, old gold, and the like.

There were substantial changes in the distribution of the monetary gold stock during the year, as shown in the table below. The Treasury turned over \$2,000,000,000 of the increment resulting from reduction in the gold content of the dollar to the exchange stabilization fund and placed \$812,000,000 in a special balance held separately as a part of the general fund. Subsequently, \$200,000,000 of gold from the exchange stabilization fund was deposited by the Treasury with the Federal Reserve Bank of New York for use by the fund and about \$8,000,000 from the \$812,000,000 balance was transferred to the Federal Reserve banks under section 13b of the Federal Reserve Act, which authorized the Secretary of the Treasury to pay to the Federal Reserve banks certain amounts against advances and commitments to provide working capital for industrial and commercial concerns.

CHANGES IN DISTRIBUTION OF MONETARY GOLD STOCK, 1934

[In millions of dollars; at value of \$20.67 per fine ounce on Dec. 30, 1933, and \$35 per fine ounce on Dec. 31, 1934]

	Dec. 30, 1933	Dec. 31, 1934	Change in 1934
Total monetary gold stock.....	4,036	8,238	+4,202
Federal Reserve gold and gold-certificate reserves ¹	3,569	5,143	+1,574
Gold certificates in circulation.....	213	130	-83
Gold coin in circulation ²	24	-----	-24
Reserves held by Treasury against United States notes and Treasury notes of 1890.....	156	156	-----
Exchange stabilization fund.....	-----	1,800	+1,800
Gold in general fund of Treasury ³	74	1,008	+934
Held against specific liabilities ⁴	45	27	-18
Balance of increment obtained from reduction in weight of dollar ⁵	-----	804	+804
Other.....	29	177	+148

¹ Gold and gold certificates on hand and due from United States Treasury plus redemption fund against Federal Reserve notes.

² Excluding \$287,000,000 of gold coin reported as in circulation on Jan. 31, 1934; all gold stock and money in circulation figures since 1913 have been adjusted to exclude this amount. The \$24,000,000 represents the amount that returned from circulation in January 1934; all gold coin returned after Jan. 31, 1934, resulted in an increase in the gold stock.

³ Does not include gold held against gold certificates outstanding or gold certificates held in certain Federal Reserve accounts with the Treasury.

⁴ Amount held in addition to other lawful money against liabilities requiring reserves of lawful money.

⁵ Excluding \$2,000,000,000 transferred to exchange stabilization fund and \$8,000,000 transferred to Federal Reserve banks under section 13b of the Federal Reserve Act.

Return of gold certificates and gold coin from circulation and release of gold held in the general fund against specific liabilities provided an additional amount of \$125,000,000 of gold available for use by the Treasury or for the Reserve banks' gold-certificate funds. As a result of the gold thus released, of that made available from the revaluation increment, imports, earmarked supplies, new production, and new monetary holdings of the public, Federal Reserve bank gold-certificate reserves and Treasury gold not reported as held in special balances showed a total increase of \$1,722,000,000. The increase in Reserve bank gold-certificate reserves amounted to \$1,574,000,000.

Gold imports.—Following revaluation of the dollar and announcement of the Treasury's willingness to buy and sell gold, there was a large flow of gold to the United States. Net imports in the year amounted to \$1,134,000,000 and net releases from earmark to \$83,000,000. Of the net imports \$500,000,000 came from England, \$260,000,000 from France, and the rest from Holland, Canada, India, Mexico, and other countries.

These imports of gold were, in considerable measure, an outcome of the definite fixation, at a lower value, of the dollar in terms of gold and foreign currencies. Definitive revaluation in January 1934 followed 9 months during which the prevailing tendency of the dollar on the exchanges was downward. The premium on foreign currencies after April 1933 was an inducement to American sales of merchandise in foreign markets and a corresponding discouragement to American purchases abroad. The tendency to increase the export

surplus in the country's merchandise trade with the world, however, was not immediately apparent, for the initial decline of the dollar in the spring of 1933 was accompanied by a wave of domestic buying that involved the purchase of foreign products as well. A rapid increase of imports at that time—chiefly in the form of raw materials—reversed the country's balance of trade for the period May through September as a whole. As the buying movement subsided, however, and the stimulus to American sales abroad began to have some effect in increased shipments of American manufactures and other products, the export surplus reappeared. By November 1933 it was on a considerable scale, and in the 12 months ending October 1934 the surplus of the country's merchandise trade with the world reached a figure of \$510,000,000 as compared with \$180,000,000 in the preceding 12 months. The increased demand for dollars to pay for this growing surplus of merchandise exports was more than offset in the closing months of 1933 and in January 1934 by gold purchases abroad for account of the Reconstruction Finance Corporation and the Treasury. Although these purchases served to balance the international transactions of the country, they had no immediate effect on member bank reserves since the funds employed were borrowed from the market. It was not until the new gold legislation in 1934 became effective that these purchases were taken up into monetary gold stock.

Under the Gold Reserve Act of 1934 and the President's proclamation of January 31 the international gold value of the dollar was fixed by administrative action somewhat below the level to which it had already fallen on the exchanges. The enlarged surplus of merchandise exports continued, and its effects were intensified to an important degree by a movement of capital to the United States. This movement was particularly great in the 2 months that followed establishment of a new gold level for the dollar. The \$650,000,000 of gold acquired by the Treasury at that time reflected for the most part a return of American funds from abroad and a movement of foreign capital into dollar balances and securities. Subsequently gold continued to move into the United States, although on a much diminished scale, until August when a moderate reversal of the movement occurred.

The interruption to the inward flow of gold appears to have been due in some measure to the more active silver policy adopted under the powers conferred by the Silver Purchase Act. This act is discussed in a subsequent section. Following nationalization of silver on August 9 there was a temporary tendency for capital to move abroad, and American purchases of silver in London, Shanghai, and other centers, as evidenced by shipments to this country, attained a volume of about \$20,000,000 a month. For a time these factors were sufficient to carry gold out of the country; but the advent of the large surplus of

merchandise exports in the fall, when Europe was receiving little from American tourists, and the development of political difficulties in certain countries of the gold bloc, led to a further substantial movement of gold to the United States in the closing months of the year. Silver imports at this time were in diminished volume, China having suspended the free operation of the silver standard in October.

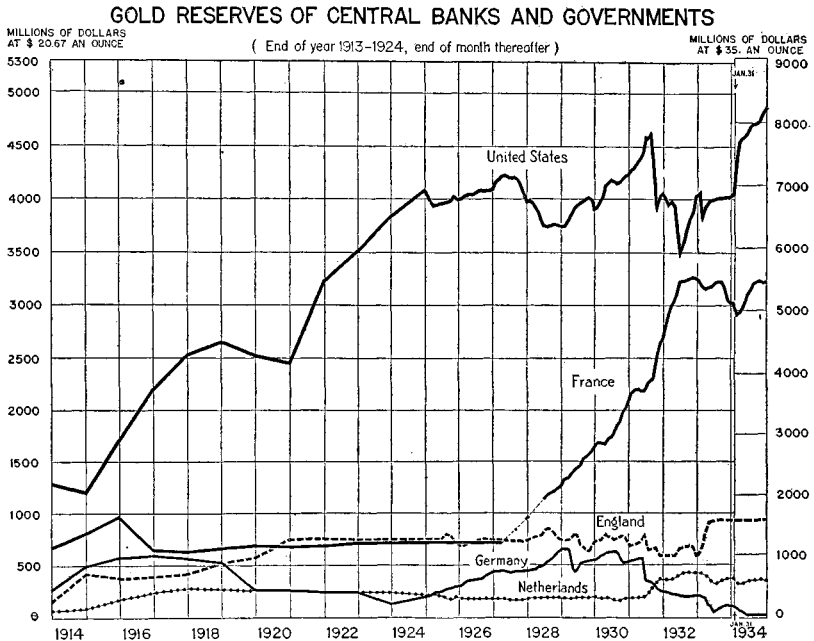
World gold reserves.—The increase in monetary gold stock of the United States during 1934 was not accompanied by a reduction in the aggregate of central bank reserves abroad. On the contrary, the reported gold reserves of foreign central banks and governments increased by \$130,000,000, valued at \$35 an ounce.

Additions to central gold reserves of the United States and other countries during 1934 came largely from the following sources, expressed in terms of the dollar at its new valuation: The total output of the world's gold mines in 1934 had a dollar value of \$940,000,000; gold dishoarded in the Orient during the year amounted to \$250,000,000; and about \$100,000,000 of domestic scrap gold from ornaments and other personal possessions and from industrial uses was sold to the United States Treasury in 1934. The combined total of scrap sold to the Treasury, gold released from oriental holdings, and world mining output thus accounts for about \$1,290,000,000 of the \$1,580,000,000 increase in reported gold reserves of central banks and governments of the world during 1934. The remainder, amounting to nearly \$300,000,000, affords a rough indication of the amount of gold coming out of unreported holdings in western countries. Included in unreported holdings are those of the British exchange equalization fund.

Although reported gold reserves of foreign countries as a whole increased somewhat during 1934, in a number of countries there were substantial declines. Reserves in Germany declined \$124,000,000; in Italy \$114,000,000; in the Netherlands \$54,000,000; in Belgium \$53,000,000; in Switzerland \$29,000,000; and in New Zealand \$16,000,000. Reserves in Czechoslovakia increased \$26,000,000; in Japan \$35,000,000; in the Union of Soviet Socialist Republics \$40,000,000; and in South Africa \$43,000,000. By far the largest increase, however, occurred in gold reserves of the Bank of France, which, notwithstanding considerable fluctuations, were \$333,000,000 larger at the end of the year than at the beginning. They were still, however, somewhat below the peak attained in December 1932.

Since the outbreak of the World War the greatest increases in gold reserves have been in the United States and France. The chart shows the movements in central gold reserves of five leading financial countries during a 20-year period. It is so arranged as to value reserves since January 1934 at \$35 an ounce and previously at \$20.67. without destroying the continuity of the series.

In the early years of the period gold holdings of the Federal Reserve banks were increased not only by gold imports but by the transfer of reserves from member bank vaults, and reserves of central banks in England, France, and Germany were increased by the recall of gold from monetary circulation to aid in prosecuting the war. Both the United States and the Netherlands received large amounts of gold during the war in payment for purchases of materials by the belligerents. In the early post-war period gold continued to flow to the United States, which occupied a creditor position and was the most important free market for the metal until the general return to the gold standard that began toward the end of 1924.



After de facto stabilization of the franc at the end of 1926, the gold movement for 5 years was predominantly toward France. The movement reflected the fact that France during the period of currency depreciation had experienced a continuous outflow of capital which had been balanced in her international payments by a large excess of exports over imports. When after de facto stabilization capital began to flow back to France, the Bank of France accumulated both gold and foreign exchange. The rapid increase in gold reserves of the Bank of France after England's departure from the gold standard in September 1931 reflected mainly the bank's conversion into gold of these previously acquired foreign exchange holdings in order to avoid further losses through currency depreciation abroad. The

increase at the same time of gold reserves in the Netherlands, Belgium, and Switzerland was in part of a similar character. Since the only important foreign exchange holdings on which central banks could freely realize were in New York, most of the gold acquired was drawn from the United States. The movements were concentrated in the fall of 1931 and the spring of 1932. From that time until the end of 1934 foreign countries added little gold to their reported holdings, while the United States gained large amounts of gold in the last half of 1932 and again in 1934.

Silver Purchase Act of 1934.—Monetary silver stock of the United States increased considerably in 1934. Most of the increase took place as a result of the Silver Purchase Act. The act, which became law on June 19, declared it to be the policy of the United States that the proportion of silver to gold in metallic monetary stocks in the United States be increased with the ultimate objective of having and maintaining one-quarter of the value of such stocks in silver. To attain this objective the Secretary of the Treasury was directed to purchase silver at home or abroad at such rates and at such times and upon such terms and conditions as he might deem reasonable and most advantageous to the public interest, provided, however, that no purchase should be made at a price in excess of the monetary value of the silver (approximately \$1.29 per fine ounce) and that no purchase of silver situated in the continental United States on May 1, 1934, should be made at a price in excess of 50 cents per fine ounce. The President was further given the power to order the delivery to the mints of any or all silver by whomever owned or possessed. Currency was to be exchanged for such silver to the amount of its monetary value, less such deductions for seigniorage and other charges as the President should approve, provided that in no case should the amount of currency exchanged be less than the value of silver at the time of the order as determined by the market price over a reasonable period of time.

Acting under these powers the President on August 9 ordered that with certain exceptions all silver situated in the United States on that date should be delivered to the mints within 90 days in exchange for currency at the rate of approximately 50 cents per fine ounce of silver. Among the types of silver to which the order did not apply were silver held for industrial, professional, and artistic use, and silverware; as well as newly mined domestic silver not subsequently processed to a fineness of over 0.8, which could be sold to the mints at 64½ cents under the President's proclamation of December 21, 1933. Through January 4, 1935, silver with a net cost value of about \$56,000,000 had been turned in under the nationalization order. Other operations under the Silver Purchase Act are not reported separately, but from the time of the nationalization order to the end of the year there were

12 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

net imports of silver into the United States costing about \$74,000,000. In addition, during 1934 silver with a net cost value of about \$14,000,000 was acquired by the Treasury from domestic mines. Against the cost of the silver acquired from such sources and against silver held in the Treasury on June 14 with a monetary value of about \$80,000,000, the Treasury issued silver certificates and a small amount of coin. Certificates outstanding increased from less than \$500,000,000 at the beginning of the year to \$700,000,000 at the end. Silver certificates and coin combined increased by \$225,000,000.

ALTERED RESERVE SITUATION IN 1934

Largely as a result of the inflow of gold, member bank reserve balances, which at the end of 1933 were nearly \$400,000,000 larger than in 1929, were further increased by about \$1,400,000,000 in 1934. At the end of the year reserve balances held by member banks totaled \$4,100,000,000, the largest amount ever held, and were \$1,800,000,000 in excess of requirements.

Factors in growth.—The table shows the principal factors that influenced the volume of member bank reserve balances and their changes during the 4 years from the end of 1929 to the end of 1933 and also during the year 1934. The table is arranged to bring out the fact that increases in Reserve bank credit, in gold stock, and in Treasury and national bank currency outstanding have the effect of increasing the supply of funds available for bank reserves, while decreases in these items reduce this supply. Increases in money in circulation, in Treasury cash and deposits with Federal Reserve banks, in nonmember deposits at Federal Reserve banks, and in other Federal Reserve accounts, on the other hand, reduce, and decreases in these items increase, the supply of funds available for bank reserves. The chart shows weekly movements of these various items during the past 6 years.

FACTORS INFLUENCING MEMBER BANK RESERVES

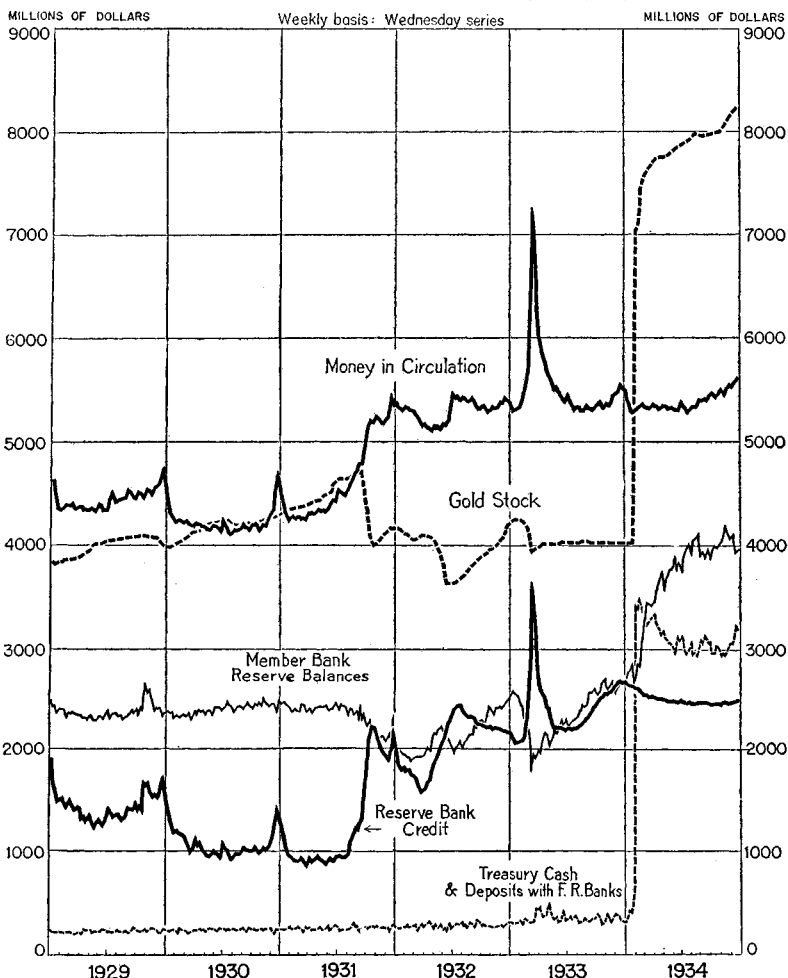
[In millions of dollars]

	Dec. 31, 1929, to Dec. 30, 1933		Dec. 30, 1933, to Dec. 31, 1934	
	Changes that added to reserves	Changes that reduced reserves	Changes that added to reserves	Changes that reduced reserves
Items, increases in which add to reserves:				
Reserve bank credit.....	+1,105	-----		-225
Monetary gold stock.....	+39	-----	¹ +4,202	-----
Treasury and national bank currency.....	+281	-----	+210	-----
Items, increases in which reduce reserves:				
Money in circulation.....	-----	+941	-----	+18
Treasury cash and deposits with Federal Reserve banks.....	-----	+42	-----	¹ +2,863
Nonmember deposits.....	-----	+102	-----	+57
Other Federal Reserve accounts.....	-33	-----	-119	-----
Total.....	1,458	1,085	4,531	3,163
Net change in member bank reserve balances.....	+374		+1,367	

¹ Including increment of \$2,812,000,000 resulting from reduction in the weight of the gold dollar.

The expansion of reserves during the 4 years of depression—1930–33—occurred in the face of a net withdrawal by the public of about \$900,000,000 of currency from the banks and repayment by the banks of over \$500,000,000 borrowed from the Federal Reserve banks in the preceding period of activity. That member bank reserves had

RESERVE BANK CREDIT AND RELATED ITEMS



Figures for money in circulation and gold stock do not include \$287,000,000 of gold coin reported as in circulation prior to January 31, 1934.

nevertheless increased above the levels of 1929 was attributable to the open-market operations of the Federal Reserve banks. With a view to establishing and maintaining easy money conditions, the Federal Reserve banks had increased their holdings of United States Government securities by the end of 1933 to \$2,400,000,000.

During 1934 there were no further open-market purchases of securities by the Federal Reserve banks; yet member bank reserves were increased by a larger amount than in the preceding 4 years to a level about 70 percent higher than in the years of active business before the depression. In addition, funds were created in the Treasury by operations under gold and silver legislation during the year. This growth of reserves in 1934 largely resulted from the increase in gold stock described in the previous section and, in contrast with increases in reserves in the preceding 4-year period, occurred without any expansion in the holdings of securities by the Federal Reserve banks. With the reserve funds obtained from gold imports member banks were able to pay off practically all of their remaining borrowings at the Federal Reserve banks, and banks and private lenders also absorbed all of the bankers' acceptances on the market, with the consequence that Reserve bank holdings of acceptances declined to a small volume.

Member bank excess reserves.—As a result of the increase in reserve balances during 1934 excess reserves of member banks rose to new record levels. At the close of 1933 excess reserves amounted to about \$850,000,000. During 1934 member bank reserve balances increased by approximately \$1,400,000,000, but since reserve requirements increased \$450,000,000 the actual rise in excess reserves amounted to \$950,000,000, bringing the total volume of excess reserves at the end of the year to \$1,800,000,000. Weekly fluctuations in the volume of excess reserves in recent years are shown on the chart.

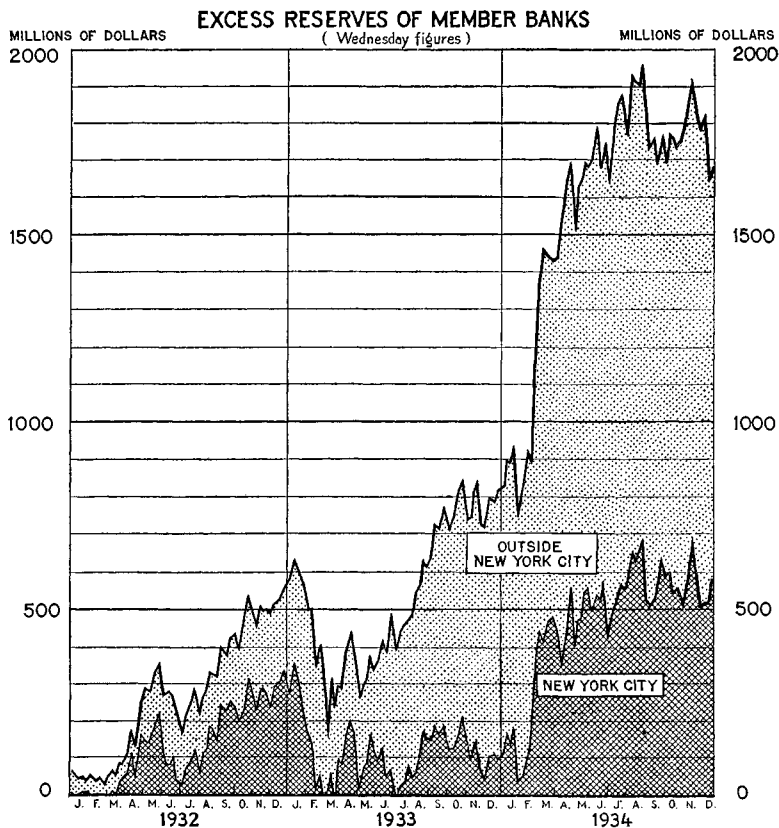
In August excess reserves at times amounted to over \$1,900,000,000, but declined somewhat in the autumn. At the end of December

EXCESS RESERVES OF MEMBER BANKS
[In millions of dollars]

	Dec. 30, 1933	Dec. 31, 1934	Increase
New York City banks.....	156	655	499
Chicago banks.....	194	215	22
Other reserve city banks.....	275	544	269
Country banks.....	201	366	165
All member banks.....	826	1,781	955

reserve balances actually held by member banks were almost as large as at the peak in August, reflecting additions to the supply of reserve funds resulting from gold imports and silver purchases, which were offset by a seasonal increase in money in circulation and by an increase in Treasury holdings of cash and deposits with Federal Reserve banks. The decline in excess reserves after August resulted from an increase in required reserves, which reflected a considerable expansion in member bank deposits.

Excess reserves continued to be well distributed among the major groups of banks in the country. About \$650,000,000 were held by New York City banks, \$760,000,000 by banks in Chicago and other reserve cities, and \$370,000,000 by country banks. The largest increase in the year—\$500,000,000—occurred at New York City banks, reflecting in large part the increased holdings by banks in New York of balances for other banks. Holdings of excess reserves



Figures for banks outside New York City partially estimated.

by class of banks, as reported on member bank condition statements as of the end of 1933 and 1934, are shown in the accompanying table.

Substantial increases in excess reserves occurred at member banks in all Federal Reserve districts. The largest relative increases were in the Boston, New York, and Philadelphia districts. The smallest increases occurred in the Atlanta, Chicago, and St. Louis districts. As shown in a subsequent section of this report many of the interior banks increased their balances due from other banks during the year. Thus city banks in effect were holding some of the excess reserves of the country banks.

Money in circulation.—The amount of money in circulation showed little net change for 1934 as a whole, and fluctuations during the year were more in accordance with the usual seasonal pattern than at any time since the latter part of 1930. There were, however, changes in the composition of money in circulation by denominations and by kinds of money. Currency continued to return from hoarding in 1934, though in smaller volume than during the latter part of 1933, and this return flow was offset by a growing demand for currency for active use, reflecting partly an increase in wage payments and retail trade and partly a tendency to use cash rather than checks as a consequence of the tax on checks and increased service charges on checking accounts.

Although there was a considerable reduction in the amount of hoarded currency in 1934, the amount of currency not in active use continued at a high level. An indication of the continued return of currency from hoarding is contained in the data for large denominations. Currency with denominations of \$20 and over declined by \$120,000,000 during the year. The smaller denomination currency, on the other hand, and also subsidiary silver and minor coin showed a net increase for the year. The following table shows by denominations the amount of paper currency outside of Federal Reserve banks and Treasury offices. Figures for December 31, 1934, are compared with those for October 31, 1930, just prior to the large increase in hoarded currency, as well as with those for December 30, 1933.

DENOMINATIONS OF PAPER CURRENCY OUTSIDE OF FEDERAL RESERVE BANKS AND TREASURY ¹

[In millions of dollars]

Denomination	Dec. 31, 1934	Change since—	
		Oct. 31, 1930	Dec. 30, 1933
\$1.....	423	+34	+21
\$2.....	32	-11	-1
\$5.....	771	+110	+52
\$10.....	1,288	+259	+59
\$20.....	1,326	+272	-16
\$50 and over.....	1,254	+610	-106
Total.....	5,095	+1,274	+10

¹ Includes also holdings of unassorted currency in Federal Reserve banks and Treasury amounting to \$104,000,000 on Oct. 31, 1930, to \$9,000,000 on Dec. 30, 1933, and to \$11,000,000 on Dec. 31, 1934.

In the 4-year period the \$1 bills showed an increase of 9 percent and \$5 bills showed an increase of 17 percent. The larger denominations, however, all showed increases which ranged from about 25 percent in the case of \$10 and \$20 notes to about 95 percent for notes in denominations of over \$50. A portion of the increase in smaller denomination currency is probably attributable to a growth

in the demand for currency as a result of the lack of banking facilities in some communities, as well as to other factors causing an increase in the use of currency instead of checks. A portion also probably reflects a continuance of hoarding, and it is likely that most of the increase in currency in denominations of \$20 and over reflects the hoarding influence.

There was also some shift during 1934 in the kinds of currency in circulation. Reductions of about \$100,000,000 each occurred in gold certificates, Federal Reserve bank notes, and national bank notes. The decline in gold certificates represented a continuation of their retirement from circulation under Treasury order, Federal Reserve bank notes were retired by the Reserve banks with the passing of the emergency which occasioned their issue, and the decline in national bank notes reflected the fact that national banks, having a large volume of excess reserves, had no incentive for incurring the expense, including the $\frac{1}{2}$ percent tax, of keeping their notes outstanding. The reduction in these classes of currency was partly offset by an increase of nearly \$200,000,000 in silver certificates and of more than \$100,000,000 of Federal Reserve notes in circulation.

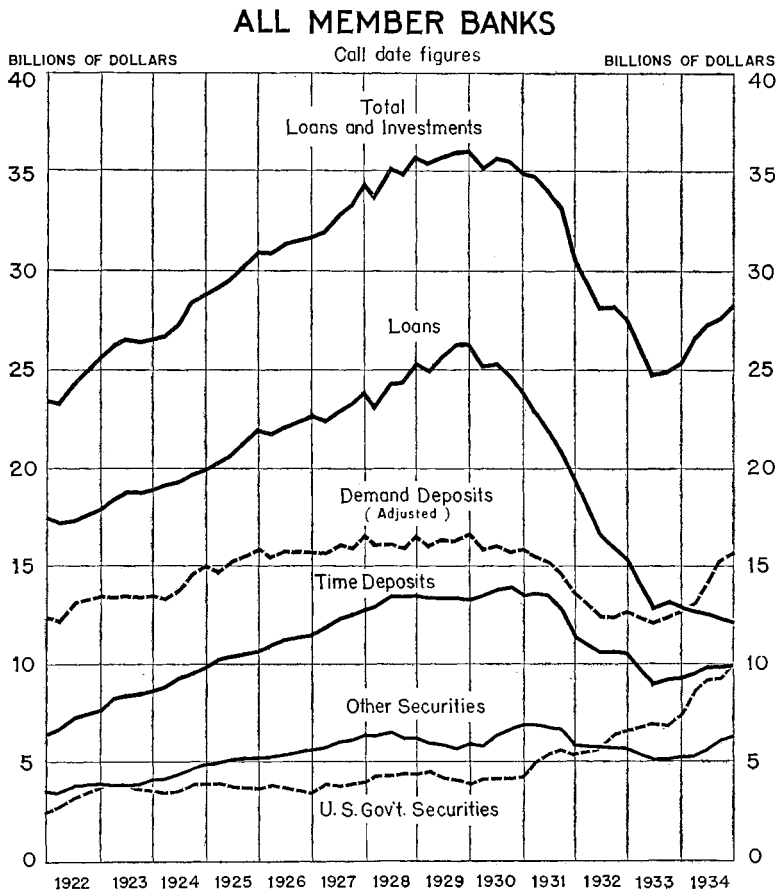
MEMBER BANK CREDIT

On the basis of the increased reserves received in 1934, member banks further increased their investments. The increase was principally in holdings of Government securities, and the funds thus supplied, after being expended by the Government, were used either to repay bank loans or were deposited at banks.

At the end of the year total deposits of all member banks were larger than at any time since the autumn of 1931, while total loans and investments were larger than at any time since the first half of 1932. The increase in loans and investments was not so large as that in deposits, owing principally to the fact that banks held a larger portion of their funds in the form of excess reserves. Country and reserve city banks also increased their balances with other banks, and the growth in interbank deposits comprised a large part of the increase in total deposits. Although city banks showed relatively larger increases in investments, country banks in rural areas reported proportionately larger increases in deposits, reflecting principally distribution of funds throughout the country by Treasury expenditures, as well as the increase in agricultural income in 1934.

Loans and investments.—Changes in loans and investments of member banks during 1934 are shown in the following table and changes from the beginning of 1922 are shown on the chart. The most important of these changes were the increase of \$2,650,000,000 in holdings of direct obligations of the United States Government and that of \$1,000,000,000 in securities guaranteed by the United States,

including those guaranteed as to principal only as well as those guaranteed as to interest and principal. The guaranteed obligations were in part purchased and in part obtained in exchange for mortgage loans. Holdings of other securities also showed some increase. The decrease in loans reflected declines in loans to banks and to other



Figures taken from the condition reports of all member banks and beginning June 30, 1933, include licensed banks only. Demand deposits adjusted are derived by subtracting checks and other cash items reported as on hand or in process of collection from demand deposits, including in demand deposits certified and officers' checks and cash letters of credit and travelers' checks outstanding but excluding interbank deposits and United States Government deposits.

customers, while holdings of open-market commercial paper and acceptances increased. Customers' loans made primarily for business purposes showed an increase of \$230,000,000 in the third quarter of the year and a corresponding decrease in the last quarter. These changes were largely of a seasonal nature and occurred at city banks.

LOANS AND INVESTMENTS OF MEMBER BANKS

[In millions of dollars]

	Dec. 30, 1933	Dec. 31, 1934	Change in 1934
Loans and investments—total.....	25, 220	28, 150	+2, 930
Loans—total.....	12, 833	12, 028	-805
Open-market loans.....	1, 231	1, 363	+132
Loans to banks.....	287	155	-132
Loans to other customers.....	11, 315	10, 509	-806
U. S. Government direct obligations.....	7, 254	9, 906	+2, 652
Securities fully guaranteed by U. S. Government.....	1 100	989	+889
Other securities.....	5, 032	2 5, 227	+195

¹ Actual holdings by banks not reported as of Dec. 30, 1933, figure shown represents approximate amount of Reconstruction Finance Corporation notes outstanding, excluding notes given in purchase of gold which amounted to about \$80,000,000 on Dec. 30, 1933, and were retired Feb. 1, 1934.

² Includes \$111,000,000 of securities guaranteed as to interest but not as to principal by the U. S. Government.

Growth in deposits.—During 1934 total deposits at member banks showed an increase of about \$6,700,000,000, to an aggregate of approximately \$33,850,000,000. A substantial part of the increase during the year represented a growth in interbank balances and United States Government deposits, and in addition at the end of 1934 checks on other banks and other items in process of collection held by banks were, largely for temporary reasons, considerably larger in amount than at the end of 1933. When adjustment is made for increases in these items, the growth of customers' deposits during the year amounted to about \$4,000,000,000. The aggregate of deposits thus adjusted was approximately \$25,000,000,000, as compared with about \$21,000,000,000 on December 30, 1933, and was larger than that for any report date since the autumn of 1931. In 1929 and 1930 the corresponding figure was close to \$30,000,000,000. A small part of the increase in deposits since 1933 reflects additions to membership in the Federal Reserve System. Changes during 1934 in various types of deposits are shown in the following table.

DEPOSITS AT MEMBER BANKS

[In millions of dollars]

	Dec. 30, 1933	Dec. 31, 1934	Change in 1934
U. S. Government.....	967	1, 635	+668
Postal Savings.....	778	452	-326
Interbank balances ¹ (United States and foreign).....	3, 396	4, 905	+1, 509
States, counties, and municipalities ¹	1, 620	2, 094	+474
Other customers:			
Demand.....	12, 109	14, 951	+2, 842
Time.....	7, 957	9, 020	+1, 063
Certified and officers' checks, cash letters of credit, and travelers' checks outstanding.....	339	790	+451
Total deposits.....	27, 167	33, 848	+6, 681
Adjusted deposits ²	20, 893	24, 952	+4, 059

¹ Includes both demand and time deposits.

² All deposits, other than U. S. Government, Postal Savings, and interbank deposits, minus checks and other cash items reported as on hand or in process of collection.

The largest element in the growth in deposits in 1934 was in demand deposits of customers other than banks or governments. These deposits showed an increase of \$2,840,000,000, a part of which represented checks in process of collection, while time deposits of the same group of customers increased in the year by about \$1,060,000,000. United States Government deposits with member banks showed an increase of nearly \$670,000,000 in the year, while Postal Savings deposits were decreased by \$325,000,000, reflecting the unwillingness of some banks to hold such deposits, largely because of the rate of interest required to be paid on them. Deposits of States, counties, and municipalities increased by about \$470,000,000. There was an increase of \$1,500,000,000 in balances due to banks, which at the end of the year aggregated nearly \$4,900,000,000, the largest amount ever reported. This increase, nearly all of which occurred in balances payable on demand, occurred notwithstanding the prohibition against the payment of interest on demand deposits, and represented further accumulation of idle funds by banks.

Factors in growth of deposits.—The most important factors in the increase in deposits during the year were Treasury expenditures, which were made from funds raised by the sale of securities to banks, by the deposit with the Reserve banks of gold certificates based on newly acquired gold, and by the issuance of silver certificates. The Treasury during 1934 purchased about \$1,400,000,000 of gold and \$200,000,000 of silver. The sale of this gold to the Treasury, which paid for it by drafts on the Reserve banks, increased member bank reserve balances. Except to the extent that gold purchases abroad by importers of the gold were paid for by drawing down balances held abroad by banks in this country, the increase in the gold stock resulted in an increase in deposits at commercial banks. In connection with the silver purchases, silver certificates were issued in an amount corresponding approximately to the purchase price of the silver bought, and these certificates were either paid into circulation directly by the Treasury or deposited with the Reserve banks. In the former case deposit of an equivalent amount of currency at member banks and by them at the Reserve banks, and in the latter case the expenditure of the Treasury balance with the Reserve banks, resulted in an increase of deposits and of reserves of member banks.

In addition to deposits created by Government purchases of the precious metals, additional deposits resulted from sales of United States Government obligations to banks and the subsequent disbursement of the funds by the Treasury. As previously shown, member bank holdings of direct obligations of the Government increased by \$2,650,000,000 during the year. Purchases of Home Owners' Loan Corporation bonds and Federal Farm Mortgage Corporation bonds by

banks gave new funds to former holders, who had mostly received the bonds in exchange for outstanding mortgage loans.

Deposits by classes of banks and by districts.—Although the growth in deposits at member banks during 1934 was spread throughout the country, there were differences in changes at various classes of banks, largely as a result of the Treasury in effect borrowing from banks in one locality and expending the money and thus creating deposits in other sections of the country. Deposits created in this manner, however, did not always return to the banks that purchased the securities. The following table shows increases during 1934 in deposits at member banks in New York City, in other reserve cities, and elsewhere. New York City banks showed proportionately the largest increases in total deposits, but in the adjusted customers' deposits the increase was greatest at country banks. Country banks in places with a population of under 15,000 in 21 agricultural States showed an increase of 26 percent in deposits, as compared with an increase of 17 percent at other country banks and of 21 percent at reserve city banks (including central reserve city banks in Chicago).

GROWTH OF DEPOSITS AT MEMBER BANKS IN 1934, BY CLASSES OF BANKS

	Increase (in millions of dollars)		Percent of increase	
	Total deposits	Adjusted deposits ¹	Total deposits	Adjusted deposits ¹
All member banks.....	6,681	4,059	25	19
New York City banks.....	2,228	705	31	14
Other reserve city banks.....	2,797	1,817	24	21
Country banks.....	1,655	1,537	20	21

¹ All deposits other than United States Government, Postal Savings, and bankers' deposits, minus checks and other cash items, reported as on hand or in process of collection.

Although country banks showed a larger increase in adjusted customers' deposits in 1934 than did city banks, the net decline since 1929 was much larger in the case of country banks, amounting to about 27 percent as compared with a net decline of about 7 percent for all central reserve and reserve city banks. This difference was due in part to the larger volume of failures among country banks since 1929, and some of the increase in deposits at country banks in 1934 was due to the reopening of a number of unlicensed banks which were not included in the reports for 1933.

By geographical areas, the largest increases during 1934 in the adjusted customers' deposits occurred in the Chicago, Atlanta, Cleveland, Minneapolis, and Kansas City districts, while the smallest were in the New York, Boston, and Philadelphia districts. In nearly all districts country banks showed larger increases in deposits than did

city banks. More detailed information by localities indicates that deposits expanded most at rural banks in the Corn Belt and the eastern cotton- and tobacco-growing States. In the States most affected by drought, increases among rural banks were relatively smaller, although in most cases substantial.

These regional differences in the growth of deposits reflect largely the influence of Treasury operations, together with increased agricultural income and increased activity in certain industries during the year. The Treasury raised more funds in the larger cities than it expended in those cities, while in the predominantly rural regions Treasury disbursements were considerably in excess of receipts. The excess of Treasury disbursements over receipts was in the neighborhood of \$300,000,000 each in the Minneapolis, Kansas City, and San Francisco districts, and around \$150,000,000 each in the St. Louis, Atlanta, and Dallas districts. In each of these districts, except Atlanta and San Francisco, this excess alone was more than sufficient to account for the increase in adjusted deposits. Withdrawals by the Treasury were concentrated largely in the New York district, where receipts exceeded disbursements by about \$1,300,000,000. Deposits in this district, however, were increased by large gold imports received during the year. Agricultural income, even when Federal Government rental and benefit payments are excluded, was somewhat larger in 1934 than in other recent years and especially so in those agricultural regions not affected by drought. In the Chicago and Cleveland districts increased activity in the automobile, agricultural implement, and meat-packing industries was also a factor in increased deposits.

Use of funds by banks.—During 1934 member banks in addition to increasing their investments, as previously shown, also increased considerably their excess reserves with Federal Reserve banks and their balances due from other banks. For individual banks both of these items represent the accumulation of idle funds. For the banking system as a whole only the volume of excess reserves represents the supply of idle banking funds, while changes in interbank balances represent merely the shifting of excess reserves among the member banks. During 1934 there was considerable shifting of this nature, and an analysis of bank statements by classes of banks and by regions indicates the manner in which funds were distributed throughout the country during the year and also the extent to which the different groups invested their available funds or held them in idle balances.

The following table shows changes during 1934 in loans and investments and certain other balance sheet items by classes of banks. The extent to which available funds were put to active use or permitted to remain in inactive balances varied among the different

groups of banks. It would appear that country banks showed a relatively larger increase in deposits of local customers than did city banks, but that country banks invested a smaller portion of their additional funds and carried a larger portion in idle balances than did city banks.

CONDITION OF ALL MEMBER BANKS—CHANGES DURING 1934

[In millions of dollars]

	Changes during 1934			
	All member banks	New York City	Other reserve cities ¹	Country banks
Loans.....	-805	-294	-313	-198
Investments.....	+3,736	+1,060	+1,765	+911
Total loans and investments.....	+2,931	+766	+1,452	+713
Reserves with Federal Reserve banks:				
Required.....	+449	+174	+191	+84
Excess.....	+954	+499	+290	+165
Cash in vault.....	+138	+39	+49	+50
Due from banks in United States.....	+1,118	+10	+581	+527
Total reserves, cash, and due from banks.....	+2,660	+722	+1,111	+826
Adjusted deposits ²	+4,059	+705	+1,817	+1,537
Balances due to other banks.....	+1,509	+613	+790	+106
United States deposits.....	+668	+369	+232	+67
Postal Savings deposits.....	-326	-51	-184	-91

¹ Including both central reserve city and reserve city banks in Chicago.

² All deposits, other than United States Government, Postal Savings, and interbank deposits, minus checks and other cash items reported as on hand or in process of collection.

Country banks, which showed an increase of over \$1,500,000,000 in deposits of local customers and a decrease of \$200,000,000 in loans, increased their investments by about \$900,000,000. Their balances with other banks and cash holdings and reserves showed a total increase of over \$820,000,000, of which about \$80,000,000 represented an increase in required reserves. These banks had an increase in available unused balances of about \$740,000,000 in the course of 1934, as compared with an increase of approximately \$900,000,000 in investments.

Reserve city banks, other than central reserve city banks in New York, showed increases of over \$1,800,000,000 in adjusted customers' deposits and of nearly \$800,000,000 in balances due to other banks and a decrease of about \$300,000,000 in loans. They increased their investments by over \$1,750,000,000, while their balances due from other banks, cash holdings, and excess reserves with Federal Reserve banks showed a total increase of over \$900,000,000. The ratio of funds invested to those held in idle balances was considerably larger than in the case of country banks. It should be noted, furthermore, that these banks were holding a larger amount of balances for other banks, which are subject to immediate call and therefore are ordinarily kept in

readily available form. When allowance is made for this factor the balance of idle funds available to these banks increased by little more than \$100,000,000 in the year.

Member banks in New York City showed increases of about \$700,000,000 in adjusted deposits, \$600,000,000 in bankers' balances, and \$350,000,000 in Government deposits, while their loans declined by nearly \$300,000,000. They increased their investments by \$1,060,000,000 and their cash and excess reserves by \$550,000,000. The increase in balances due to banks exceeded the increase in idle funds at New York City banks. The growth in bankers' balances in New York would indicate that in the course of the year New York City banks in effect received a large part of the excess reserves of other banks.

Analyzing similar figures by districts it appears that banks in the New York, Chicago, St. Louis, and San Francisco districts placed a larger portion of their available funds in investments and a smaller portion in idle balances than did banks in other districts, while banks in the Boston, Philadelphia, Kansas City, and Dallas districts accumulated relatively larger idle balances. In the majority of districts country banks showed more of a tendency to accumulate reserves and balances with other banks, while city banks invested a relatively larger portion of the increase in deposits of their customers.

It would appear that the incidence of Treasury borrowing and expenditures during 1934, together with agricultural and industrial developments, was instrumental in distributing funds throughout the country. Country banks received an increase in deposits, but did not increase their purchases of Government securities by the same amount. Instead they built up balances with banks in the larger cities. These country-bank deposits received through the clearing system were added to the credit of the city banks at the Reserve banks. Most of the increase in excess reserves during 1934, therefore, although carried by city banks, was represented by balances held by these banks for their country correspondents and was at the disposal of and subject to call by country banks.

PROGRESS OF BANKING RECONSTRUCTION

During the year 1934 banking facilities available to the public increased considerably. About 19,000 banking offices of unrestricted institutions, including mutual savings and private banks, were in operation at the end of the year, of which 3,000 were branches. This represented an increase of 1,000 head offices and about 200 branches during the year.

Active membership in the Federal Reserve System increased by 431 banks to 6,442 by the end of the year. The increase was accounted for in part by licensing of restricted banks, in part by organization of

new banks, and in part by admission to membership of nonmember State banks. Deposits in member banks as of December 31, 1934, amounted to \$33,850,000,000, which was about 86 percent of the deposits in all commercial banks, exclusive of mutual savings banks, and about 69 percent of the deposits in all banks, inclusive of mutual savings banks.

Bank suspensions in 1934.—Bank suspensions in 1934 were fewer than in any year since 1920. The suspensions during the year comprised 57 licensed banks with deposits of \$36,937,000,^r one of which, with deposits at time of suspension of \$40,000, was a member of the Federal Reserve System. There were eight other suspensions among banks participating in Federal deposit insurance.

Unlicensed banks.—By the end of 1934 the number of unlicensed banks had been reduced to relatively unimportant proportions. After the bank holiday in March 1933 more than 4,500 banks with deposits of about \$4,200,000,000 were reported as not licensed to conduct an unrestricted business. By the beginning of 1934 these had been reduced to about 1,800 banks with deposits of approximately \$1,000,000,000, and by the end of the year only about 160 banks with deposits of approximately \$90,000,000 were reported as remaining unlicensed, after deducting 927^r banks placed in liquidation or receivership during the year. Most of the remaining unlicensed banks were not members of the Federal Reserve System, as is shown by the following table:

UNLICENSED BANKS

	Jan. 1, 1934		Dec. 31, 1934	
	Number	Deposits (000 omitted)	Number	Deposits (000 omitted)
National.....	452	\$435,000	5	\$6,500
State member.....	60	93,000	4	1,500
State nonmember.....	1,257	500,000	r 149	80,000
Total.....	1,769	1,028,000	r 158	88,300

^rRevised.

Disposition of unlicensed banks.—During the 22 months following the banking crisis the number of unlicensed banks was reduced in a variety of ways. Many, after receiving new capital, were reopened, while others were merged with active institutions. In some cases the best assets and a proportionate amount of deposits were drawn into newly chartered institutions and the old banks were placed in liquidation. Many were placed directly in liquidation.

An accounting for all of the 4,500 banks which were unlicensed in March 1933 is not yet possible. The Comptroller of the Currency, however, has made public figures with respect to the disposition of

^rRevised.

the 1,417¹ national banks which had not been licensed to operate on an unrestricted basis after the banking holiday of March 1933. By December 31, 1934, 1,088 unlicensed national banks had been reorganized under old or new charters or merged with other national banks; 30 had given up their national charters; 294 had been disapproved for reorganization and placed in receivership; and 5 remained unlicensed.

Loans to closed banks.—Since its organization in February 1932, the Reconstruction Finance Corporation has been active in releasing funds to depositors of closed banks by making loans to conservators and receivers. Authorizations of loans of this character aggregated \$1,045,000,000 from February 2, 1932 to December 31, 1934, and of this three-fourths had actually been disbursed. As repayments of \$318,000,000 had been received, a balance of \$444,000,000 of such loans was outstanding at the end of 1934.

New capital for banks.—Many unlicensed banks were able to reopen during 1934 and many active banks were strengthened by the addition of capital funds, a large part of which was furnished by the Reconstruction Finance Corporation. During the year the program for strengthening the capital structure of the banking system initiated in the summer of 1933 was pressed through the joint efforts of Federal and State agencies. The program was furthered by the Comptroller of the Currency in the case of national banks, by the Federal Deposit Insurance Corporation in the case of nonmember banks whose deposits were insured by the Corporation, and by the Federal Reserve Board and the Federal Reserve banks in the case of State member banks. When the program was initiated in 1933, the Federal Reserve Board requested the Federal Reserve agents to keep in touch with such banks in their respective districts as might require assistance, and during the year 1934 Federal Reserve officials continued to cooperate with the various supervisory authorities in developing and consummating plans for strengthening the capital of member banks.

On December 31, 1934, the Reconstruction Finance Corporation had an aggregate investment of \$845,960,000 in the capital structure of banks and had lent in addition \$19,124,000 to local interests in order to enable them to make purchases of preferred stock. The investments included \$585,858,000 in preferred stock and \$260,102,000 in capital notes and debentures. In addition, the Corporation had authorized, contingent upon the performance of certain conditions, investments of \$209,076,000 more in the capital structure of banks. Altogether 6,900 banking institutions had had their capital structures strengthened by the Reconstruction Finance Corporation.

¹ Includes 6 national banks which were licensed on Mar. 15, 1933, but whose licenses were subsequently revoked, and 1 which suspended before the banking holiday and was placed in conservatorship subsequent thereto; also includes 10 nonnational banks in the District of Columbia subject to the supervision of the Comptroller of the Currency.

The largest part of the investments of the Corporation in the capital structure of banks was made after the beginning of 1934, at which time the total investments did not exceed \$250,000,000.

Condition reports of member banks as of December 31, 1934, indicated that the capital structure of member banks included \$553,574,000 of preferred stock and \$118,515,000 of capital notes and debentures, an aggregate of \$672,089,000. Most of this was held by the Reconstruction Finance Corporation.

Federal deposit insurance.—An important contribution to stability in the banking structure during the year was the insurance of bank deposits by the Federal Deposit Insurance Corporation. On January 1, 1934, the Corporation began the administration of a temporary fund, which insured the deposits of all participating banks up to \$2,500 on the net approved claim of each depositor. All licensed banks belonging to the Federal Reserve System were required to become members of the insurance fund, and State banks which were not members of the Federal Reserve System were permitted to participate after examination and after certification of State authorities that they were in solvent condition.

Under the Banking Act of 1933, it was provided that the temporary fund should be effective from January 1, 1934 through June 30, 1934, after which the permanent plan, which would cover a larger percentage of deposits, would become effective. By the act of June 16, 1934, the temporary plan was extended to operate from July 1, 1934, through June 30, 1935, but provision was made to insure each depositor during this period up to \$5,000. Mutual savings banks which continued membership were given the option of covering their deposits up to \$2,500 or up to \$5,000. A number of mutual savings banks discontinued participation in the fund on July 1, 1934, in part because of the establishment of a State fund for mutual savings banks in New York.

When operations began on January 1, 1934, 12,617 banks were members of the fund and this number increased to 14,205 banks by the end of the year. Of these, 5,462 were national banks; 980 State banks which were members of the Federal Reserve System; 68 mutual savings banks; and 7,695 other banks. It was reported that on October 1, 1934, 44 percent of the total deposit liability of insured banks was protected. This ratio varied considerably for the different classes of banks, being as high as 72 percent for commercial banks not members of the Federal Reserve System, due to the fact that these banks as a group have a preponderance of small accounts. Among State bank members of the Federal Reserve System, 33 percent of deposits was covered by insurance.

Computations made as of October 1, 1934, indicated that 98 percent of the 51,245,000 depositors in insured banks were fully pro-

tected under the provisions of the law. The remaining depositors who were only partially insured, however, had 823,000 accounts with total deposits of about \$25,000,000,000, about two-thirds of all deposits of all banks participating in the insurance fund. An important proportion of these large accounts was in New York State and in many cases probably represented deposits of correspondent banks and other corporations. Because of the concentration of so many of the large accounts in New York, the percentage of insured deposits was considerably smaller for that State than for the country as a whole. Among New York State commercial banks 24 percent of the deposits were insured, as compared with 44 percent for the country as a whole, including New York.

BUSINESS CONDITIONS

The general course of business in the United States during the past 7 years is indicated by the accompanying table.

COURSE OF BUSINESS, 1928-34

[Index numbers. 1923-25 average=100]

	Industrial production	Factory employment	Factory pay rolls	Construction contracts awarded (value)	Freight-car loadings	Department-store sales (value)	Wholesale commodity prices ¹
1928.....	111	99	102	135	103	108	97
1929.....	119	105	109	117	106	111	95
1930.....	96	92	89	92	92	102	86
1931.....	81	77	68	63	75	92	73
1932.....	64	64	46	28	56	69	65
1933.....	76	69	49	25	58	67	66
1934.....	79	79	62	32	62	75	75

¹ 1926 average=100.

In 1934 output of industrial products, including both manufactures and minerals, was at 79 percent of the 1923-25 average as compared with 76 in the preceding year and with the low point of 64 in 1932. At the same time crop production, which had been relatively well maintained throughout the depression, showed a marked reduction as a consequence of a prolonged drought and of acreage reductions in connection with the program of the Agricultural Adjustment Administration. Owing to higher prices received by farmers, increased marketings of livestock, and larger rental and benefit payments by the Agricultural Adjustment Administration, however, total farm income was larger in 1934 than in 1933. Construction work on public projects showed a considerable increase. Profits of industrial corporations, which had recovered considerably in 1933, made further advances in 1934, and were higher than in any year since 1930. Public-utility profits, however, were smaller in 1934 than in the previous year, and the deficit of railroads increased. Value of department-store sales

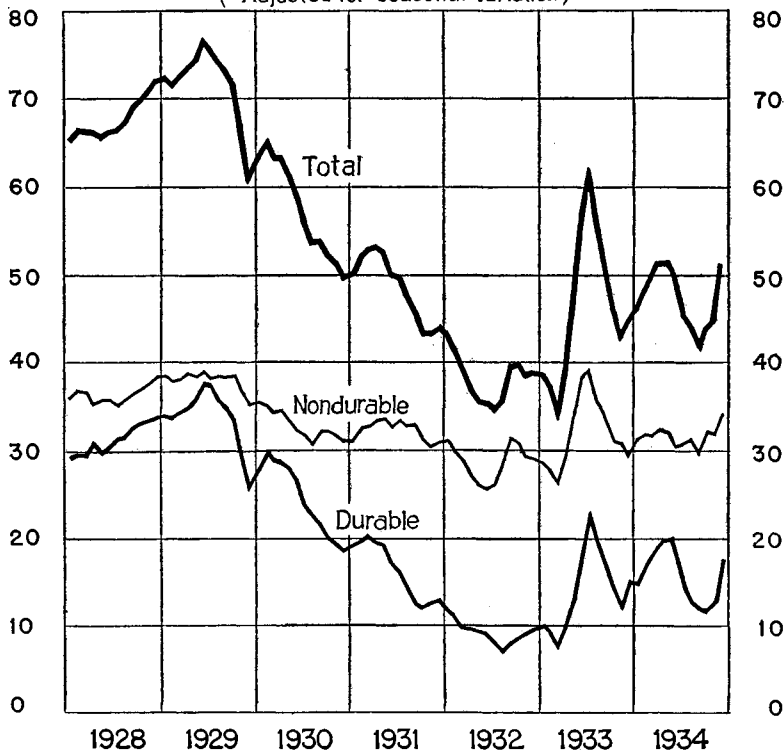
in 1934 was 75 percent of the 1923-25 average as compared with 67 in 1933, and other branches of retail trade also increased, particularly in rural areas.

Production, employment, and trade.—The increase in industrial output in 1934 reflected chiefly larger output of manufactures, but there were fairly marked increases in the production of such minerals as zinc, lead, and silver, and a moderate increase in the output of coal.

MANUFACTURES—DURABLE AND NONDURABLE

AGGREGATE PHYSICAL PRODUCTION IN COMPARABLE UNITS

(Adjusted for seasonal variation)



“Durable” includes pig iron, steel, automobiles, lumber, vessels, locomotives, nonferrous metals, cement, polished plate glass, and coke. “Nondurable” includes textiles, leather and products, foods, tobacco products, paper and printing, petroleum refining, and automobile tires and tubes.

The chart shows fluctuations since 1928 in output of durable and nondurable manufactures, as indicated by the components of the Board’s index.

Among the industries producing durable manufactures the most marked increase during 1934 was in the automobile industry, where output was 43 percent larger than that of 1933 and double that of 1932. Activity in the steel industry also showed a further increase,

while lumber production continued at an unusually low level, reflecting in considerable part continued inactivity in residential building.

In the group of industries producing nondurable manufactures, output showed little change in the aggregate but continued at a higher level relative to the 1923-25 average than output of durable products. Activity at meat-packing establishments showed a marked increase, while textile-mill activity was generally at a lower level than in 1933. Output of tobacco products showed a considerable growth, and there were increases also in the leather and tire industries.

Fluctuations in industrial output were considerable in 1934, although not so large as in 1933. A growth in activity in the early part of the year was followed by a decline during the summer, and output during the autumn months was at about the same level as a year earlier. The increase in industrial output to 86 percent of the 1923-25 average in May reflected chiefly increased output of automobiles and steel. During the second quarter stocks of steel were accumulated in anticipation of price increases announced for third-quarter deliveries, and in consequence steel production showed a sharp decline in July. Textile output was also at a low level during the summer months and was further reduced in September by a strike. Subsequently output in the textile industry increased somewhat. Activity in the meat-packing industry, which had increased sharply, accompanying large marketings of cattle on account of drought conditions, declined in the autumn. In December, with a sharp increase in automobile production, expansion in activity at steel mills, and a growth in activity at woolen and silk mills, industrial output increased, contrary to seasonal tendency, and the Board's adjusted index advanced to 86 percent of the 1923-25 average as compared with 75 percent in November and with a low point for the year of 71 in September.

By the beginning of 1934 a substantial volume of contracts for Public Works Administration projects had been awarded, and actual expenditures on such projects showed a rapid rise during the spring and summer months. Subsequently there was a decline, reflecting the completion of many projects, particularly on highways. The value of contracts awarded for privately financed projects was at about the same low level in 1934 as in each of the 2 preceding years. The record on contracts awarded in the past 3 years is shown below by 6-month periods.

CONSTRUCTION CONTRACTS AWARDED

[F. W. Dodge data for 37 Eastern States. In millions of dollars]

	Total	Publicly financed	Privately financed
1932:			
First half.....	667	335	332
Second half.....	684	432	252
1933:			
First half.....	432	161	271
Second half.....	824	524	300
1934:			
First half.....	854	572	282
Second half.....	689	404	285

Factory employment and pay rolls in 1934 were at higher levels than in 1933, and at the end of the year factory employment, as well as factory output, was in about the same volume as at the end of 1930. In nonmanufacturing industries employment in December was at about the same level as at the end of 1933.

In 1933 employment and pay rolls increased considerably more than production in comparable manufacturing industries, reflecting in large part the spreading of work and the increasing of wage rates under the industrial codes. In 1934 production, employment, and pay rolls all fluctuated closely together.

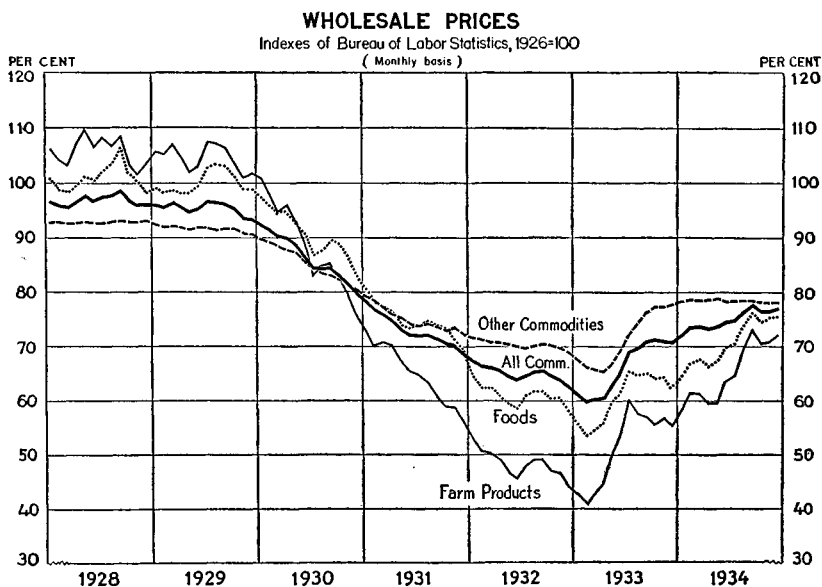
In 1934 distribution of commodities showed an increase and was generally maintained with less marked fluctuations than were reported for industrial output. Value of commodities distributed through department stores was 12 percent larger than in 1933 for the country as a whole, with the most marked increases reported in the Atlanta, Dallas, Richmond, and Chicago districts, while the smallest increases were in the Boston and New York districts. Distribution of commodities through chain stores also showed an increase, and there was considerable growth in sales reported by general-merchandise stores in rural areas. Total volume of freight-car loadings increased somewhat, reflecting a growth in the volume of rail shipments of all classes of freight except grain products and merchandise in less-than-carload lots.

Commodity prices.—During 1934 wholesale commodity prices continued to advance, reflecting increases in prices of farm products and foods, while other commodities as a group showed little change. The record for the past 7 years, according to the index of the Bureau of Labor Statistics, is shown on the accompanying chart.

The principal increase during 1934 in the price of farm products came during the summer months. At that time drought conditions prevailed over wide areas, reducing the yields of grain crops to exceptionally low levels. Prices of grains and dairy products advanced sharply. The immediate effect of the drought on the livestock situation, however, was to increase the volume of cattle and sheep

marketed, which tended to reduce prices of livestock and meats. Government purchases of cattle and sheep during this period were a factor in maintaining existing levels of prices. While marketings of cattle and sheep showed a large increase during the summer months, marketings of hogs declined, partly as a result of seasonal factors and partly on account of small supplies available on the farms. At the same time cotton prices advanced as it became evident that the crop would be reduced to about 10,000,000 bales, largely as a consequence of smaller acreage but also in part on account of the drought in Texas, Oklahoma, and western Arkansas.

In September and October prices of most leading agricultural products declined somewhat. Toward the end of the year livestock



prices showed marked increases, and prices of cattle continued to increase rapidly after the turn of the year, reflecting reduced supplies as a secondary effect of the drought. In December prices of corn and hogs were about double those of a year earlier, and prices of wheat, cotton, and steers were from 25 to 50 percent higher; potato prices, on the other hand, were lower by about one-half.

The small price changes during 1934 for the group of commodities other than farm products and foods reflected declines in the prices of textiles and hides and leather, offset by increases in the prices of bituminous coal, metals and metal products, chemicals, and miscellaneous products, particularly rubber and tires. Building-material prices, after advancing somewhat during the first half of the year, declined by about the same amount in the second half.

Retail prices of food, as measured by the index of the Bureau of Labor Statistics, advanced from 105 percent of the 1913 average at the beginning of the year to 117 percent early in September and subsequently declined to 114 percent. The increase for the year was general, with the most marked advance reported for meats. Prices of articles sold mainly at department stores and mail-order houses apparently showed little change. House rents, which had declined for 9 years, advanced in some communities, reflecting increased occupancy accompanying moderate increases in incomes.

INDUSTRIAL ADVANCES BY FEDERAL RESERVE BANKS

By an act of Congress approved on June 19, 1934, the Federal Reserve banks and the Reconstruction Finance Corporation were authorized, within prescribed limitations, to make credit available for the purpose of supplying working capital to established industrial and commercial businesses. This act amended the Federal Reserve Act by the addition of section 13b, which embodies the provisions relating to the Federal Reserve banks. Regulation S, relating to the provisions of this section, was issued by the Board on June 26, 1934.

This legislation was advocated because many small enterprises had suffered severe capital losses during the depression and had inadequate working capital. Such enterprises find it difficult to obtain their requirements of working capital through the capital market, while commercial banks and other financial institutions, in many cases, were hesitant about undertaking on their single responsibility the risks involved in making relatively long-time loans for working-capital purposes.

Recognizing the possible need of these industrial and commercial businesses for additional working capital to enable them to continue or resume normal operations and to maintain employment or provide additional employment, Congress granted the Federal Reserve banks broad powers to enable them to provide such working capital, either through the medium of banks, trust companies, and other financing institutions or, in exceptional circumstances, by advances directly to such commercial and industrial businesses.

The conditions imposed by the law are such that loans must be made to established industrial or commercial businesses, must be made for the purpose of supplying working capital, and must have maturities not exceeding 5 years. In addition, direct loans by the Federal Reserve banks may be made in exceptional circumstances, when credit is not obtainable on a reasonable basis from the usual sources, and provided the loan can be made on a reasonable and sound basis.

When credit is advanced through the medium of banks or other financing institutions, the procedure is ordinarily for the financing

institution to make the loan and procure from the Federal Reserve bank a commitment binding the Federal Reserve bank to take over the loan at the option of the financing institution. Such commitments are specifically authorized in the act. Before the Federal Reserve bank can grant such a commitment it must satisfy itself that the loan is properly made and is one that it is authorized by the act to acquire.

The Federal Reserve bank, therefore, must make the same credit investigation of a loan by a financing institution for which it is to grant a commitment as of a loan which it is to make direct. This is especially necessary because, under the law, when such a loan is discounted for a financing institution by the Reserve bank the financing institution need retain obligation for no more than 20 percent of any loss thereon.

The law provided for the appointment of an industrial advisory committee in each district, consisting of members actively engaged in industrial pursuits. Members of these advisory committees had been selected by the third week in July, and the consideration of applications by the committees and by the Reserve banks began immediately. On August 1 the Federal Reserve Bank of Minneapolis made the first industrial advance. The Reserve banks received many inquiries and informal applications for industrial advances immediately following the passage of the act, and for the first few weeks the industrial advisory committees were not able to act on applications as rapidly as they were received. By the first part of September, however, this situation was changed, and by December the number of applications received was much smaller and these were being acted upon without material delay.

In the period of approximately 6 months which elapsed between the approval of the act and the close of the year about 5,100 applications for a total of \$190,000,000 had been received. Of these 1,020 in the amount of \$52,000,000 had been approved and 661, amounting to \$41,000,000, were under consideration at the end of the year. Most of the other loans applied for were either ineligible under the conditions imposed by the act or were without a satisfactory credit basis. The applications approved included about \$14,000,000 approved on conditions which as of the end of this year had not been met by the applicant; and disbursement on these, therefore, had not been made. On January 2, 1935, the Federal Reserve banks held about \$14,000,000 of industrial loans and were under commitment for about \$10,000,000. The accompanying table shows industrial-loan activity through January 2, 1935.

In the period elapsed since adoption of section 13b of the Federal Reserve Act, the Federal Reserve Board and the Federal Reserve

banks have made constant and energetic efforts to make the provisions of the law as generally known as possible to banks and prospective borrowers. Cooperation of member banks has also been obtained. These efforts have been made through visits to bankers and through frequent circularization. At the same time the Board and

INDUSTRIAL ADVANCES AND COMMITMENTS TO JAN. 2, 1935

	Number	Amount
Net applications received ¹	5, 108	\$190, 798, 000
Federal Reserve bank action:		
Approved.....	1, 020	² 52, 257, 000
Rejected.....	3, 404	95, 721, 000
Advances outstanding.....		14, 315, 000
Commitments outstanding.....		10, 213, 000

¹ Excluding applications withdrawn and changes in amounts applied for before action by industrial advisory committees but including withdrawals and changes made after such action but before action by Federal Reserve banks.

² Including \$1,899,000 of applications withdrawn or expired after approval.

the Federal Reserve banks have given careful and repeated consideration to the procedure for handling applications. Every complaint received from rejected applicants has been carefully investigated and the reasons for rejection explained to the applicant. In order to improve procedure and coordinate policies under this law there have been frequent meetings of Board members, Reserve bank officials, and members of the industrial advisory committees. The efforts of the Federal Reserve banks and the Federal Reserve Board to make known the provisions of section 13b and the examination of applications have entailed considerable work and expense to the Federal Reserve banks. The servicing of the loans is expensive; the security for loans includes mortgages upon property, assignment of accounts receivable, contracts, etc., and care must be taken that taxes and premiums are paid, that contracts are fulfilled, and in general that no impairment of the security occurs.

SECURITIES EXCHANGE ACT OF 1934

With a view to preventing the excessive use of credit for the purchasing or carrying of securities, the Securities Exchange Act of 1934, which became law on June 6, requires the Federal Reserve Board from time to time to prescribe rules and regulations with respect to the amount of credit that may be extended and maintained on any security registered on a national securities exchange. Certain securities are exempted by the act from these provisions. For the initial extension of credit such rules and regulations must be based upon a certain standard set forth in the act, but the Board is authorized to

prescribe such requirements lower than the standard as it "deems necessary or appropriate for the accommodation of commerce and industry, having due regard to the credit situation of the country", and such higher requirements as it may "deem necessary or appropriate to prevent the excessive use of credit to finance transactions in securities."

The act makes it unlawful for any member of a national securities exchange, or any broker or dealer who transacts a business in securities through the medium of any such member, to extend or maintain credit to or for any customer (1) on any registered security (other than an exempted security) in contravention of the Board's rules and regulations, or (2) without collateral or on collateral other than registered securities and/or exempted securities, except in accordance with such rules and regulations as the Board may prescribe to permit the extension or maintenance of such credit in certain cases.

In accordance with the act the Board issued on September 27 a regulation (Regulation T) effective October 1 dealing with the extension and maintenance of credit by brokers, dealers, and members of national securities exchanges. The regulation placed no restrictions on the amount of or collateral for loans for industrial, commercial, or agricultural purposes. In prescribing the margin requirements specified in this regulation the Board adopted the basis stated in the Securities Exchange Act of 1934 and provided that, with certain exceptions, a member of a national securities exchange, or a broker or dealer subject to the regulation, shall not make any initial extension of credit to any customer on any registered security (other than an exempted security) for the purpose of purchasing or carrying any security, in an amount which causes the total credit extended on such registered security to exceed whichever is the higher of:

- (1) 55 percent of the current market value of the security; or
- (2) 100 percent of the lowest market value of the security computed at the lowest market price therefor during a specified period preceding the current month, but not more than 75 percent of the current market value. The period specified is one of 36 calendar months except that until July 1, 1936, it is the period between July 1, 1933, and the beginning of the current month.

At the level of security prices when Regulation T went into effect, brokers could extend credit on most registered securities up to 75 percent of their current market value. In case of any substantial increase in security prices, however, the average margin requirement prescribed by the regulation increases automatically, since the loan value of an increasing proportion of outstanding securities becomes less than 75 percent of current market value.

The margin requirements stated in the law and now prescribed by the Federal Reserve Board are designed to exert a restraining influence

on speculative trading. By imposing higher margin requirements on securities that have had a rapid rise than on more stable securities, the prescribed requirements make credit less freely available for trading in speculative securities.

Regulation T does not prescribe a specific margin that must be maintained after a loan has been granted, but imposes restrictions on the operations which the customer may be permitted to carry on in his account if his margin falls below the standard prescribed for initial extension of credit. Thus the amount of credit maintained in an account is not required by the regulation to be reduced as a consequence of a decline in the market value of the securities held, but additional extensions of credit are not permitted unless sufficient additional margin is supplied for the new extension itself.

The regulation provided means by which accounts in existence on October 1, 1934, might be recorded separately by the creditor at any time prior to November 15, 1934, and thereafter be maintained separately until liquidated, but not later than July 1, 1937. In order to prevent circumvention of the margin rules, however, transactions in such accounts are subject to restriction.

Under section 8 of the Securities Exchange Act of 1934 brokers and dealers subject to the act may not borrow on registered securities (other than exempted securities) from lenders other than member banks except under certain conditions. Nonmember banks must sign an agreement in the form specified in Regulation T before brokers and dealers who are subject to the regulation may borrow from them, and by December 31, 1934, 121 nonmember banks had signed this agreement. Members of registered securities exchanges and other brokers and dealers subject to the regulation are also permitted to borrow from and lend to one another under specified conditions.

Rules are also included in Regulation T regarding cash transactions, reports by brokers, and such administrative details as the borrowing and lending of securities, the debiting of interest, commissions, etc., the handling of guaranteed accounts, the transfer of accounts, temporary credit for clearance of securities, and adjustments for innocent mistakes.

In preparation for the adoption of margin requirements the Board made a survey of the condition of margin accounts held with brokers in the summer of 1934. At the request of the Federal Reserve Board the New York, Chicago, and San Francisco Stock Exchanges obtained certain reports from their members as of July 31, 1934. Reports were secured covering approximately 213,000 accounts and over two-thirds of all customers' borrowings. They showed that a large number of accounts contained substantial amounts of excess margin, as judged either by the rules of the New York Stock Exchange or by the standard used in Regulation T. In 85 percent of

the accounts reported, customers were not borrowing more than 66½ percent of the value of the securities in the account. The value of the securities held in all the accounts was nearly twice as large as the amount borrowed on the securities, that is to say, total borrowings were equal to approximately 50 percent of the total value of the securities carried.

The reports showed the amount of each individual security held in customers' accounts with debit balances and in partners' and firms' accounts. These data covered in all some 20,000 different issues with total market value estimated at about \$2,600,000,000. Detailed analysis was made of figures representing about 80 percent of the total estimated value of all securities held by brokers for their customers. This analysis indicated that on the basis of market values as of July 31, 1934, over two-thirds of the securities so held, exclusive of unlisted securities, could have been carried under the provisions of Regulation T with a maximum loan of 75 percent of market value, about one-fourth permitted loans of percentages varying from 55 to 75 percent of market value and averaging 67.6 percent, and the remainder, or about one-twelfth, had a maximum loan value of 55 percent of market value. The average maximum loan value on all these securities was slightly under 72 percent. This compared with a maximum percentage permitted by the New York Stock Exchange of about 77 percent for large accounts and 66½ percent for small accounts, averaging about 75 percent for all accounts.

When the new margin rules went into effect the securities markets were relatively inactive, and remained so during the rest of the year. There was accordingly no occasion, such as might be afforded by a rapidly rising market, to test the effectiveness of the new rules in accomplishing the purposes for which they were adopted. Between September 1934, before Regulation T became effective, and the last month of the year, security prices advanced somewhat. The increase for common stocks, according to the index of the Standard Statistics Co., amounted to about 3 percent. From the end of September to the end of December there was little change in the total volume of customers' borrowings from brokers. The total borrowings of members of the New York Stock Exchange at the end of 1934, amounting to \$880,000,000, were \$35,000,000 larger than at the end of 1933 but only about 10 percent of their maximum in the autumn of 1929.

The Securities Exchange Act of 1934 also empowers the Federal Reserve Board, within certain limitations, to prescribe rules and regulations, including margin requirements, for credit extended or

maintained by other persons than members of a national securities exchange, or brokers or dealers who transact a business in securities through the medium of such members, for the purpose of purchasing or carrying any security registered on a national securities exchange. These other persons include all banks in the United States except such banks as are subject to Regulation T by reason of their holding membership in a national securities exchange. This authority is additional to that conferred by other statutes for credit supervision. The Board is studying the subject and in due time will issue the required regulation as to bank loans made to purchase or carry securities registered on a national securities exchange.

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

Gross earnings of the Federal Reserve banks in 1934 amounted to \$48,903,000, or \$584,000 less than in 1933. After deducting current expenses of \$29,242,000, reserves for depreciation on bank premises, and reserves for losses, self-insurance, etc., there remained net earnings of \$15,231,000, or \$7,274,000 more than the amount of net earnings for 1933. Earnings, expenses, dividend payments, etc., for all Federal Reserve banks combined for 1934 and 1933 are shown in the following table:

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS DURING 1934 AND 1933

[In thousands of dollars]

	1934	1933
Total earnings	48,903	49,487
Current expenses	29,242	29,223
Current net earnings	19,661	20,264
Additions (profits on sales of United States Government securities, etc.)	8,926	1,762
Deductions (depreciation and other reserves, etc.)	13,356	14,069
Net deductions from current net earnings	4,430	12,307
Net earnings	15,231	7,957
Dividends paid	8,781	8,874
Transferred to surplus (sec. 7)	6,510	—017
Withdrawn from surplus (sec. 13b)	60	—

All Federal Reserve banks paid dividends to member banks at the rate of 6 percent per annum on their paid-in capital. These dividends amounted to \$8,781,661.

Gross and net earnings during the year 1934 and the distribution of net earnings of each Federal Reserve bank are shown in the following table:

FINANCIAL RESULTS OF OPERATIONS OF THE FEDERAL RESERVE BANKS
DURING 1934

Federal Reserve bank	Gross earnings	Net earnings	Dividends paid	Transferred to surplus (sec. 7)	Withdrawn from surplus (sec. 13b)
Boston.....	\$3,055,928	\$932,792	\$644,075	\$291,872	\$3,155
New York.....	16,081,935	8,307,134	3,567,690	4,747,138	7,694
Philadelphia.....	3,725,022	1,042,879	925,875	117,900	896
Cleveland.....	4,137,556	1,042,697	769,096	281,757	8,156
Richmond.....	1,987,801	313,347	299,050	14,595	298
Atlanta.....	1,818,161	658,812	264,093	394,351	2,632
Chicago.....	8,152,371	1,404,491	761,334	669,479	26,322
St. Louis.....	1,824,453	139,996	241,009	-100,966	47
Minneapolis.....	1,415,097	176,285	181,117	-----	4,832
Kansas City.....	1,960,098	243,534	247,156	-----	3,622
Dallas.....	1,521,971	331,869	237,924	93,945	-----
San Francisco.....	3,222,420	640,573	643,242	-----	2,669
Total.....	48,902,813	15,231,409	8,781,661	6,510,071	60,323

Earnings on total bills and securities were slightly less in 1934 than in 1933, an increase of about \$74,000,000 in average daily holdings of bills and securities being more than offset by a reduction from 1.98 percent to 1.91 percent in the average rate of earnings. Average daily holdings of bills and securities, together with average rates and amounts of earnings thereon, are shown for recent years in the following table:

EARNINGS ON BILLS AND SECURITIES

[Amounts in thousands of dollars]

	Bills and securities				
	Total	Bills discounted	Bills bought in open market	U. S. Government securities	All other bills and securities
Daily average holdings:					
1931.....	1,251,058	326,217	245,260	669,013	10,568
1932.....	2,062,446	520,637	70,902	1,461,258	9,649
1933.....	2,421,566	283,229	82,882	2,052,160	3,295
1934.....	2,495,497	35,788	24,742	2,431,673	13,294
Earnings:					
1931.....	27,565	9,821	5,010	12,428	306
1932.....	47,992	17,881	2,785	26,924	402
1933.....	47,995	9,137	1,238	37,530	90
1934.....	47,655	1,231	141	46,131	1152
Average rate of earnings (percent):					
1931.....	2.20	3.01	2.04	1.86	2.90
1932.....	2.33	3.43	3.93	1.84	4.17
1933.....	1.98	3.23	1.49	1.83	2.74
1934.....	1.91	3.44	.57	1.90	14.61

¹Includes industrial advances.

Current expenses of the Federal Reserve banks in 1934 were \$29,241,000, or \$18,000 more than in 1933.

Salary payments during 1934, including contributions to the retirement system of the Federal Reserve banks established on March 1, 1934, were \$1,551,000 in excess of salary payments in 1933. Other items of expenditure that show a substantial increase over 1933 are the assessments for expenses of the Federal Reserve Board, which increased \$572,000, and taxes on banking houses, which increased \$110,000. Owing largely to the falling off in the demand for currency in 1934 as compared with 1933, when there was an abnormal demand for currency preceding the banking holiday, expenditures of the Federal Reserve banks for the printing and redemption of Federal Reserve currency declined \$1,359,000 and insurance on currency shipments by \$68,000. Other substantial reductions in expenses were \$120,000 in taxes on Federal Reserve bank notes, \$219,000 in telephone and telegraph charges, \$240,000 in postage and expressage, \$71,000 in printing, and \$148,000 in insurance other than on currency shipments.

The average number of officers and employees, exclusive of those assigned to Reconstruction Finance Corporation work, was 10,376 in 1934 compared with 10,015 in 1933. During the year the Federal Reserve banks had an average of 1,351 officers and employees engaged on work of the Reconstruction Finance Corporation compared with 1,114 in 1933.

The volume of work handled in the principal operating departments of the banks for which a measurement is available, during each of the last 4 years, was as follows:

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS

	1931	1932	1933	1934
NUMBER OF PIECES HANDLED ¹				
Bills discounted:				
Applications.....	109,000	178,000	81,000	15,176
Notes discounted.....	513,000	779,000	346,000	42,128
Industrial advances:				
Notes discounted.....				463
Commitments to make industrial advances.....				227
Bills purchased in open market for own account.....	221,000	76,000	79,000	7,400
Currency received and counted.....	2,269,292,000	2,025,552,000	2,013,459,000	2,067,835,000
Coin received and counted.....	2,900,462,000	2,654,787,000	2,497,928,000	2,565,164,000
Checks handled.....	864,615,000	734,538,000	688,933,000	818,847,000
Collection items handled:				
U. S. Government coupons paid.....	17,322,000	17,710,000	18,099,000	21,555,000
All other.....	6,927,000	7,468,000	8,371,000	7,436,000
U. S. Government direct obligations—issues, redemptions, and exchanges by fiscal agency department.....	2,431,000	1,956,000	3,502,000	5,281,000
Transfers of funds.....	1,663,000	1,469,000	1,290,000	1,125,000

¹ 2 or more checks, coupons, etc., handled as a single item, are counted as 1 "piece."

42 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

VOLUME OF OPERATIONS IN PRINCIPAL DEPARTMENTS—Continued

	1931	1932	1933	1934
AMOUNTS HANDLED				
Bills discounted.....	\$14, 555, 590, 000	\$18, 648, 306, 000	\$9, 632, 808, 000	\$714, 361, 000
Industrial advances:				
Notes discounted.....				14, 884, 000
Commitments to make industrial advances.....				11, 443, 000
Bills purchased in open market for own account.....	2, 998, 415, 000	762, 755, 000	898, 001, 000	75, 903, 000
Currency received and counted.....	12, 668, 638, 000	10, 952, 597, 000	11, 710, 364, 000	9, 932, 601, 000
Coin received and counted.....	585, 945, 000	360, 295, 000	624, 617, 000	298, 297, 000
Checks handled.....	248, 172, 956, 000	176, 591, 791, 000	157, 833, 692, 000	179, 544, 488, 000
Collection items handled:				
U. S. Government coupons paid....	479, 960, 000	529, 086, 000	578, 082, 000	699, 325, 000
All other.....	7, 321, 814, 000	5, 427, 817, 000	5, 539, 659, 000	6, 742, 974, 000
U. S. Government direct obligations—issues, redemptions, and exchanges by fiscal agency department.....	17, 348, 971, 000	19, 444, 110, 000	24, 622, 726, 000	29, 941, 049, 000
Transfers of funds.....	162, 095, 081, 000	116, 040, 041, 000	85, 059, 151, 000	73, 077, 156, 000

As indicated by the foregoing table, there has been a substantial increase during the past 2 years, and particularly in 1934, in the volume of United States Government obligations issued, redeemed, and exchanged and of United States Government coupons paid by the Federal Reserve banks. There has also been a corresponding increase in other fiscal agency and custodianship services rendered to the United States Government by the Federal Reserve banks, including services performed for the Reconstruction Finance Corporation, the Farm Credit Administration, the Home Owners' Loan Corporation, and other Government agencies.

The Banking Act of 1933 and the Securities Exchange Act of 1934 imposed additional duties and responsibilities upon the Federal Reserve Board and the Federal Reserve banks and added appreciably to their cost of operation. The act of June 19, 1934, adding section 13b to the Federal Reserve Act under which the Federal Reserve banks are authorized to make industrial advances for working capital purposes, with a maturity of not exceeding 5 years, has also resulted in a substantial increase in the volume of work performed by the Federal Reserve banks and in their expenses.

BUILDING OPERATIONS OF FEDERAL RESERVE BANKS AND THE FEDERAL RESERVE BOARD

Construction of additions to the buildings occupied by the Federal Reserve Banks of New York and Philadelphia was in progress at the end of 1934. All Federal Reserve banks and their branches are now housed in buildings owned by the banks except the branches at Cincinnati, Charlotte, Portland, Seattle, and Spokane. The Federal Reserve Board now occupies rented quarters in two buildings in the city of Washington.

The act of June 19, 1934, authorized the Federal Reserve Board to acquire a building site in the District of Columbia and to construct a building suitable and adequate in its judgment for its purposes. A careful survey of possible locations for the new building was made, which resulted in the selection of a site on the north side of Constitution Avenue, between Twentieth and Twenty-first Streets NW. The site was approved by the National Capital Park and Planning Commission and by the Secretary of the Interior who recommended it to the President, and the President gave his approval on July 13, 1934. Title was transferred to the Board by the Secretary of the Treasury on January 22, 1935, the purchase price being \$754,583.

Following the approval of the site, the Board engaged Mr. Everett V. Meeks, dean of the School of the Fine Arts in Yale University, to prepare a program for a competition for the selection of an architect for the building. The program, after having been approved by the Fine Arts Commission, the National Capital Park and Planning Commission, and the American Institute of Architects, was issued on February 1, 1935. During the formulation of the program for the competition, a thorough study of the Board's needs in the new building was made by Mr. E. F. Abell, consulting engineer. The Board also had the benefit of the advice and assistance of the National Park Service of the Department of the Interior.

After consulting with the chairman of the Fine Arts Commission, invitations to participate in the competition were sent to Arthur Brown, Jr., San Francisco, Calif.; Coolidge, Shepley, Bulfinch & Abbott, Boston, Mass.; Paul Philippe Cret, Philadelphia, Pa.; Delano & Aldrich, New York City; Holabird & Root, Chicago, Ill.; John Russell Pope, New York City; James Gamble Rogers, New York City; Egerton Swartwout, New York City; and York & Sawyer, New York City.

The jury selected by the Board to pass upon the designs submitted by the competing architects is composed of Messrs. John W. Cross, New York City; William Emerson, Boston, Mass.; and John Mead Howells, New York City, architects; Mr. Frederic A. Delano, chairman of the National Capital Park and Planning Commission, and Mr. Adolph C. Miller, member of the Federal Reserve Board and chairman of the site and building committees appointed by the Board.

BRANCHES AND AGENCIES OF FEDERAL RESERVE BANKS

The 25 branches and 2 agencies of the Federal Reserve banks which were in operation at the end of 1933 continued to function throughout the year 1934. The following table shows a comparison of the volume

44 ANNUAL REPORT OF THE FEDERAL RESERVE BOARD

of work handled in certain departments during the years 1931, 1932, 1933, and 1934:

VOLUME ¹ OF OPERATIONS OF FEDERAL RESERVE BRANCHES AND AGENCIES

	1931	1932	1933	1934
Checks handled:				
Number.....	245, 416, 000	205, 505, 000	193, 799, 000	233, 518, 000
Amount.....	\$48, 079, 197, 000	\$34, 048, 272, 000	\$33, 618, 776, 000	\$43, 109, 445, 000
Currency received and counted:				
Number of pieces.....	522, 933, 000	470, 285, 000	472, 870, 000	489, 527, 000
Amount.....	\$2, 565, 552, 000	\$2, 222, 943, 000	\$2, 543, 130, 000	\$2, 195, 423, 000
Coin received and counted:				
Number of pieces.....	593, 425, 000	574, 622, 000	526, 189, 000	531, 547, 000
Amount.....	\$72, 550, 000	\$71, 273, 000	\$126, 211, 000	\$68, 136, 000

¹ 2 or more checks, etc., handled as a single item, are counted as 1 "piece."

Current expenses during 1934 of the branches and agencies amounted to \$5,917,000, compared with \$5,834,000 during 1933.

FEDERAL RESERVE INTERDISTRICT COLLECTION SYSTEM

At the end of 1934 there were 12,915 banks (licensed and unlicensed) on the Federal Reserve par list, comprising all member banks (6,451) and 6,464 nonmember banks that pay, without deduction of exchange charges, such checks drawn upon them as are presented or forwarded for payment by the Federal Reserve banks. During the year the number of nonmember banks on the par list decreased by 690, largely as a result of the reduction in the number of banks in operation, and the number not on the par list decreased by 52. Of the 2,643 banks not on the par list at the end of 1934, 1,438 were located in the 11 Southern States and 1,083 in the West North Central States and the adjoining State of Wisconsin. As will be seen from the following table, all of the banks in the Boston, New York, and Philadelphia districts and all but one in the Cleveland district were on the Federal Reserve par list.

INTERDISTRICT COLLECTION SYSTEM

(Number of banks, including both licensed and unlicensed banks, at end of December 1933 and 1934)

Federal Reserve district	Member banks		Nonmember banks, other than mutual savings banks			
	Dec. 31, 1934	Dec. 31, 1933	On par list		Not on par list ¹	
			Dec. 31, 1934	Dec. 31, 1933	Dec. 31, 1934	Dec. 31, 1933
United States.....	6, 451	6, 523	6, 464	7, 154	2, 643	2, 695
Boston.....	371	367	174	209	-----	-----
New York.....	792	808	314	300	-----	-----
Philadelphia.....	656	671	268	281	-----	-----
Cleveland.....	629	621	638	696	1	3
Richmond.....	401	400	336	352	310	338
Atlanta.....	332	330	99	109	663	637
Chicago.....	683	692	1, 740	1, 986	211	187
St. Louis.....	394	403	926	1, 002	376	377
Minneapolis.....	524	532	214	249	697	704
Kansas City.....	734	748	1, 108	1, 256	168	199
Dallas.....	555	549	335	365	183	211
San Francisco.....	380	402	312	349	34	39

¹ Figures for 1933 exclude while those for 1934 include private banks not under State supervision (55 on Dec. 31, 1934).

CHANGES IN MEMBERSHIP

During the year 1934 the number of licensed member banks increased from 6,011 to 6,442, a net increase of 431. This increase was due largely to the opening of 406 new national banks, resulting mainly from the reorganization of unlicensed member banks, and the admission of 125 State banks to membership in the Federal Reserve System. The increases were partly offset by the merger, absorption, consolidation, and liquidation of 169 licensed member banks. The 6,442 licensed member banks on December 31, 1934, included 5,462 national banks and 980 State member banks. Changes in the number of licensed member banks during 1934 are summarized in the following table:

CHANGES IN NUMBER OF LICENSED MEMBER BANKS DURING 1934

Number of licensed member banks at beginning of year.....	6,011
Increases:	
Organizations of national banks (including successions and conversions).....	406
Admissions of State banks to membership.....	125
Reopening (licensing) of suspended and unlicensed banks.....	75
Total additions.....	606
Decreases:	
Withdrawals of State banks from membership.....	5
Suspensions.....	1
Mergers, absorptions, consolidations, and liquidations.....	169
Total decreases.....	175
Net increase.....	431
Number of licensed member banks at end of year.....	6,442

At the end of December 1934 loans and investments of member banks constituted approximately 87 percent of the total loans and investments of all banks, exclusive of mutual savings banks, compared with 83 percent at the end of 1933 and 79 percent at the end of 1932.

AMENDMENTS TO THE LAW RELATING TO THE FEDERAL RESERVE SYSTEM

During the year 1934 a number of acts were passed by Congress containing provisions of importance amending the Federal Reserve Act or by their terms affecting the Federal Reserve System. These provisions are summarized below.

ACT OF JANUARY 30, 1934

Transfer of gold of Federal Reserve banks to the United States.—The Gold Reserve Act of 1934, enacted January 30, 1934, vested in the United States all right, title, and interest and every claim of the Federal Reserve Board, the Federal Reserve banks, and the Federal Reserve agents to all gold coin and bullion, and in payment therefor established credits in the Treasury in equivalent amounts in dollars, these credits being payable in gold certificates. Gold in the possession of the Federal Reserve Board, the Federal Reserve banks, and Federal Reserve agents was required to be held in custody for the United States and delivered upon order of the Secretary of the Treasury.

Amendments relating to Federal Reserve notes.—Section 16 of the Federal Reserve Act was amended by the Gold Reserve Act of 1934 so as to make Federal Reserve notes redeemable only in lawful money; to eliminate the authority for the use of gold (but not gold certificates) as collateral for Federal Reserve notes; to require that reserves against Federal Reserve notes be maintained in gold certificates instead of in gold and that reserves against deposits of Federal Reserve banks be maintained in gold certificates or lawful money instead of in gold or lawful money; to require the redemption fund of each Federal Reserve bank maintained on deposit at the Treasury of the United States to be in gold certificates instead of in gold; to make deposits of Federal Reserve banks and Federal Reserve agents with the Treasurer of the United States repayable in gold certificates only and not in gold coin; and to make other corresponding amendments in other provisions of section 16.

Conditions as to acquisition or transportation of gold.—The Gold Reserve Act also required the Secretary of the Treasury, with the approval of the President, to prescribe conditions under which gold may be acquired, held, and transported (*a*) for industrial, professional, and artistic use, (*b*) by the Federal Reserve banks for the purpose of settling international balances, and (*c*) for such other purposes as in the Secretary's judgment are not inconsistent with the purposes of the act.

Redemption of currency in gold.—The act prohibited the redemption in gold of any currency of the United States except as permitted in regulations prescribed by the Secretary of the Treasury, with the approval of the President; but the act also provided that gold certificates owned by the Federal Reserve banks shall be redeemed at such times and in such amounts as in the judgment of the Secretary are necessary to maintain the equal purchasing power of currency of the United States; that the reserve for United States notes and Treasury notes of 1890 and the security for gold certificates shall be maintained in gold bullion equal to the dollar amounts required by law; and that the reserve for Federal Reserve notes shall be maintained in gold

certificates or in credits payable in gold certificates maintained with the Treasurer of the United States under section 16 of the Federal Reserve Act.

Reduction in weight of the gold dollar; stabilization fund.—The Gold Reserve Act also amended the act of May 12, 1933, which empowered the President under certain conditions to reduce the weight of the gold dollar by an amount not exceeding 50 percent. The Gold Reserve Act provided that in any event the weight of the gold dollar should not be fixed at more than 60 percent of its previous statutory weight. It was provided that the increase in the value of the gold held by the United States which resulted from any reduction in the weight of the gold dollar should be covered into the Treasury as a miscellaneous receipt. The sum of \$2,000,000,000 resulting from such increase was appropriated to be deposited with the Treasurer of the United States in a stabilization fund, under the exclusive control of the Secretary of the Treasury, with the approval of the President, to be available for expenditure for the purpose of stabilizing the exchange value of the dollar and also for the purpose of investing or reinvesting in direct obligations of the United States any portions of the fund not currently required for stabilizing the exchange value of the dollar. It was provided that the operation of the stabilization fund should terminate 2 years after the date of enactment of the act, but the President was given authority to terminate the operation of the fund at an earlier date or, by proclamation, to extend the period for not more than 1 additional year.

Other provisions of Gold Reserve Act.—The Gold Reserve Act also contains provisions for the forfeiture of gold withheld, acquired, or transported in violation of law; provisions prohibiting coinage of gold with certain exceptions; and certain other provisions of a miscellaneous character.

ACTS OF JANUARY 31, 1934, AND APRIL 27, 1934

Security for 15-day advances by Federal Reserve banks.—Section 13 of the Federal Reserve Act was amended by the Federal Farm Mortgage Corporation Act approved January 31, 1934, so as to authorize Federal Farm Mortgage Corporation bonds issued under the Federal Farm Mortgage Corporation Act to be used as security for advances by Federal Reserve banks to their member banks for periods not exceeding 15 days and was amended by an act approved April 27, 1934, so as to authorize bonds issued under the provisions of section 4 (c) of the Home Owners' Loan Act of 1933, as amended, to be used as security for such advances.

Obligations eligible for purchase by Federal Reserve banks.—Section 14 of the Federal Reserve Act was amended by the act of January 31, 1934, above mentioned, so as to authorize Federal Re-

serve banks to buy and sell bonds of the Federal Farm Mortgage Corporation having maturities from date of purchase of not exceeding 6 months and was amended by the act of April 27, 1934, so as to authorize such banks to buy and sell bonds issued under the provisions of section 4 (c) of the Home Owners' Loan Act of 1933, as amended, and having maturities from date of purchase of not exceeding 6 months.

Federal Reserve banks as fiscal agents for Home Owners' Loan Corporation.—The act of April 27, 1934, also authorized the Federal Reserve banks, with the approval of the Secretary of the Treasury, to act as depositaries, custodians, and fiscal agents for the Home Owners' Loan Corporation.

ACT OF MARCH 6, 1934

Direct obligations of the United States as security for Federal Reserve notes.—By the act of March 6, 1934, the authority of the Federal Reserve Board, when it deems it in the public interest, to permit the use of direct obligations of the United States as collateral security for Federal Reserve notes, which would otherwise have expired on March 3, 1934, was extended until March 3, 1935, or until the expiration of such additional period not exceeding 2 years as the President may prescribe.

ACT OF MAY 18, 1934

Robbery of member bank.—This act provided a penalty of fine or imprisonment, or both, for taking, by force and violence or by putting in fear, the property of a member bank or any bank organized under the laws of the United States and provided more severe penalties for assaults in connection with such an offense. It also provided that whoever, in committing such an offense or in endeavoring to escape from arrest for such an offense, kills any person or forces any person to accompany him unwillingly, shall be punished by imprisonment for not less than 10 years or by death if the jury so direct.

ACT OF JUNE 27, 1934

Applicability of restrictions on real-estate loans to loans under the Housing Act.—The act of June 27, 1934, the National Housing Act, amended section 24 of the Federal Reserve Act so as to provide that a loan made by a national bank which is secured by real estate and insured under the provisions of title II of the National Housing Act shall not be subject to the restriction of that section as to the amount of the loan in relation to the actual value of the real estate or to the limitation of 5 years upon the term of a real-estate loan. It also provided that loans made to finance the construction of residential

or farm buildings with maturities of not more than 6 months, whether or not secured by lien on real estate, are not to be considered loans secured by real estate within the meaning of section 24 of the Federal Reserve Act but that no national bank may invest in or be liable on any such loans in excess of 50 percent of its paid-in and unimpaired capital.

Eligibility for rediscount of construction loans.—Notes representing loans made to finance the construction of residential or farm buildings were made eligible by the act of June 27, 1934, for rediscount at Federal Reserve banks for member banks within the terms of the applicable provisions of the Federal Reserve Act relating to rediscounts, if accompanied by a valid and binding agreement to advance the full amount of the loan upon the completion of the building entered into by a person acceptable to the discounting Federal Reserve bank.

Moneys of Federal Savings and Loan Insurance Corporation.—The act provided for the deposit with Federal Reserve banks in certain instances of moneys of the Federal Savings and Loan Insurance Corporation not required for current operations.

ACT OF JUNE 6, 1934

Securities Exchange Act of 1934.—This act, enacted June 6, 1934, in addition to its other provisions for the regulation of national securities exchanges, placed certain regulatory powers in the Federal Reserve Board. Section 7 directed the Federal Reserve Board, for the purpose of preventing the excessive use of credit for the purchase or carrying of securities, to regulate the amount of credit that may be extended or maintained by brokers, dealers, and members of national securities exchanges, on any security (other than an "exempted security") registered on a national securities exchange. Members, brokers, and dealers are forbidden by the law to extend or maintain credit without collateral or on collateral other than registered or exempted securities except in accordance with the rules or regulations which the Board may prescribe to permit such extension or maintenance of credit in certain cases; and they may not borrow on registered, nonexempted securities in the ordinary course of business except (1) from a member bank, (2) from a nonmember bank which has filed with the Board a specified agreement, or (3) in accordance with such rules or regulations as the Board may prescribe to permit loans between members, brokers, and dealers, or to meet emergencies. The agreement specified for nonmember banks from which members, brokers, or dealers may borrow, must be an undertaking to comply with all provisions of the Securities Exchange Act of 1934, the Federal Reserve Act, and the Banking Act of 1933, which are applicable to member banks and relate to the use of credit to finance transactions in securities, and with

rules or regulations prescribed pursuant to such provisions. The act also authorized the Board to regulate the extension or maintenance of credit by persons other than members, brokers or dealers, when such credit is for the purpose of purchasing or carrying registered securities.

ACT OF JUNE 16, 1934

Insurance of bank deposits.—Section 12B of the Federal Reserve Act was amended by the act of June 16, 1934, so as to extend for a period of 1 year after June 30, 1934, the temporary plan for insurance of bank deposits and so as to increase from \$2,500 to \$5,000 the amount of the deposits of any depositor in one bank which are insured under the temporary plan (except deposits of mutual savings banks in certain circumstances). The act also contained certain other miscellaneous amendments to section 12B of the Federal Reserve Act with regard to the insurance of bank deposits.

Capital requirements for membership in the Federal Reserve System.—The Federal Reserve Act was amended by this act so as to provide that for the purposes of membership of a State bank applying for membership in the Federal Reserve System, the terms “capital” and “capital stock” shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation.

Stock ownership by directors of member banks.—This act also repealed the provisions of the Banking Act of 1933 relating to stock ownership by directors, trustees, or members of similar governing bodies of member banks of the Federal Reserve System. The law on this subject with respect to member banks, therefore, is now the same as existed prior to the enactment of the Banking Act of 1933.

ACT OF JUNE 19, 1934

Industrial advances by Federal Reserve banks.—The act of June 19, 1934, added to the Federal Reserve Act a new section, known as section 13b, under which in exceptional circumstances and pursuant to authority granted by the Federal Reserve Board, a Federal Reserve bank may on a reasonable and sound basis make loans to or purchase obligations of an established industrial or commercial business which is unable to obtain requisite financial assistance from the usual sources, for the purpose of providing such business with working capital, and may make commitments with respect to such loans or purchases, subject to a limitation of 5 years upon the maturity of any such obligation or commitment. Federal Reserve banks were also authorized by this act to acquire such working capital obligations of such businesses from banks or financing institutions by discount or purchase, to make loans on the security of such obligations, and to

make commitments with respect to such discounts, purchases, or loans. Under the law each such financing institution must obligate itself to the Federal Reserve bank for at least 20 percent of any loss which may be sustained upon any such obligation or, in lieu thereof, furnish at least 20 percent of the working capital advanced to such established industrial or commercial business.

The law established in each Federal Reserve district an industrial advisory committee consisting of not less than 3 nor more than 5 members actively engaged in some industrial pursuit and appointed by the Federal Reserve bank subject to the approval of the Federal Reserve Board; and each application for a loan, advance, purchase, discount, or commitment under authority of section 13b must be submitted to the appropriate committee which after consideration of the application transmits it to the Federal Reserve bank with its recommendation.

In order to enable the Federal Reserve banks to make the industrial advances described, the Secretary of the Treasury was authorized by the law to pay to each Federal Reserve bank a sum equal to not in excess of the par value of its holdings of stock in the Federal Deposit Insurance Corporation, upon agreement by the Federal Reserve bank to hold such stock unencumbered and to pay to the United States all proceeds thereof. In addition, each Federal Reserve bank is required to agree that if the proceeds of such stock in any calendar year do not aggregate 2 percent of the total payment made to it by the Secretary, it will pay to the United States such further amount, if any, up to 2 percent of such total payment as shall be covered by the net earnings of the bank for the year derived from the use of the sum so paid by the Secretary.

The aggregate amount of discounts, purchases, loans, advances, and commitments of the Federal Reserve banks outstanding under the authority of section 13b of the Federal Reserve Act at any one time shall not exceed the surplus of the banks as of July 1, 1934, plus all amounts paid to the banks by the Secretary of the Treasury as above described.

This act also amended the Reconstruction Finance Corporation Act so as to authorize the corporation, in certain circumstances and subject to certain limitations, to make loans to industrial or commercial businesses, either directly or in cooperation with banks or other lending institutions or by the purchase of participations.

Liabilities of national banks.—The act of June 19, 1934, excepted liabilities incurred under the provisions of section 13b of the Federal Reserve Act from the limitation of section 5202 of the Revised Statutes of the United States upon the aggregate liabilities of a national bank, in addition to the other exceptions therein provided.

Criminal provisions.—The act of June 19, 1934, also provided criminal penalties for material false statements or overvaluation of security in connection with the grant of credit accommodations by Federal Reserve banks, for embezzlement or misapplication of funds of a Federal Reserve bank or false entries or issuance of obligations without authority by any person connected with a Federal Reserve bank, and for giving or receiving of undisclosed fees, commissions, bonuses, or things of value for procuring or endeavoring to procure from a Federal Reserve bank any credit accommodation either directly from such Federal Reserve bank or indirectly through any financing institution. Provisions of certain sections of the Criminal Code of the United States with reference to activities of members of Congress and officers of the United States in connection with contracts with the Government of the United States were extended insofar as applicable to apply to contracts or agreements with any Federal Reserve bank.

Building for Federal Reserve Board.—The act of June 19, 1934, also authorized the Federal Reserve Board to acquire a building, or a site and to construct thereon a building, for the purpose of providing suitable and adequate quarters in the District of Columbia for the performance of its functions.

ADDITIONS TO AND CHANGES IN THE FEDERAL RESERVE BOARD'S REGULATIONS

In accordance with the provisions of the Securities Exchange Act of 1934, the Federal Reserve Board issued its Regulation T with regard to the extension and maintenance of credit by brokers, dealers, and members of national securities exchanges. This regulation became effective October 1, 1934, but in order that persons affected by it might have additional time after that date within which to familiarize themselves with its provisions, the Securities and Exchange Commission exempted, until midnight of October 14, 1934, from the operation of certain provisions of the statute and regulations issued thereunder, all securities except those as to which the Commission had refused to grant registration.

The act of June 19, 1934, authorizing Federal Reserve banks to grant credit accommodations for the purpose of providing working capital for established industrial or commercial businesses provided that all such operations of the Federal Reserve banks should be subject to such regulations as the Federal Reserve Board might prescribe; and accordingly, the Federal Reserve Board issued its Regulation S with reference to this subject on June 26, 1934, and it became effective immediately.

The Board's Regulation Q with reference to the payment of deposits and interest thereon by member banks of the Federal Reserve System

was amended in several particulars, but the amendments, while approved in December 1934, were adopted to become effective February 1, 1935. The principal amendment was a reduction in the maximum rate of interest which may be paid by member banks on time and savings deposits from 3 percent per annum compounded semiannually to 2½ percent per annum, compounded quarterly.

EXTENSION OF THE PERIOD DURING WHICH FEDERAL RESERVE BANKS MAY MAKE ADVANCES TO MEMBER BANKS IN EXCEPTIONAL CIRCUMSTANCES

Section 10 (b) of the Federal Reserve Act, as amended by the act of March 9, 1933, authorizes advances by Federal Reserve banks in exceptional and exigent circumstances to individual member banks which are without sufficient eligible and acceptable assets to enable them to obtain adequate credit accommodations through other methods provided by law, but it is provided that no such advances may be made after March 3, 1934, or after the expiration of such additional period not exceeding 1 year as the President may prescribe. By proclamation under date of February 16, 1934, the President prescribed an additional period of 1 year after March 3, 1934, during which advances might be made by any Federal Reserve bank under the provisions of said section 10 (b).

CREDIT AGREEMENTS WITH FOREIGN CENTRAL BANKS

The aggregate participation of the Federal Reserve banks in the two credits extended, with the approval of the Federal Reserve Board, to the National Bank of Hungary in 1931 by the Federal Reserve Bank of New York, in association with the other Federal Reserve banks and other foreign central banks, was reduced during 1934 from \$3,560,000 to \$3,140,000. These two credits, which took the form of purchases of prime commercial bills guaranteed by the National Bank of Hungary, had been consolidated in 1933 in an agreement that provided for scheduled reductions over a period of 3 years. The demand deposit of \$10,000,000 placed by the Federal Reserve banks, upon the approval of the Federal Reserve Board, with the Bank for International Settlements in 1931 for the purchase from time to time of bills guaranteed by that bank, which had been reduced to \$2,920,000 by the beginning of 1934, was further reduced to \$530,000 during the year. The total of the demand deposit and of bills purchased under the agreement, which had amounted to \$4,220,000 at the beginning of the year, was reduced to \$2,530,000.

On November 2, at the time gold was being shipped from Belgium to the United States, the Federal Reserve Board approved the extension of credits to the National Bank of Belgium by the Federal

Reserve Bank of New York, in association with the other Federal Reserve banks, for amounts up to \$25,000,000 in the form of advances secured by gold. Advances made under this agreement were entirely liquidated by the end of November, when the shipment of gold from Belgium to this country ceased. On November 28 the Federal Reserve Board also approved the extension of similar credits to the Bank for International Settlements by the Federal Reserve Bank of New York, in association with the other Federal Reserve banks, for amounts up to \$50,000,000 in the form of advances secured by gold. No utilization was made of this credit during the year.

BANK EXAMINATIONS

Under the provisions of the Federal Reserve Act State member banks are subject to examinations made by direction of the Federal Reserve Board or of the Federal Reserve banks by examiners selected or approved by the Federal Reserve Board. The examinations of State member banks made under the provisions of the Federal Reserve Act are made by examiners for the various Federal Reserve banks, whose appointments are approved by the Federal Reserve Board and who work under the direction of the Federal Reserve agents. The policy approved by the Federal Reserve Board provides that at least one regular examination of each State member bank, including its trust department, be made during each calendar year by examiners for the Federal Reserve banks, either independently or jointly with State banking authorities.

In order to avoid duplication of examinations and minimize any inconvenience to the banks examined, most of the examinations of State member banks made by examiners for the Federal Reserve banks were joint examinations made in cooperation with the State banking authorities.

In connection with the consideration of applications of holding company affiliates for voting permits, arrangements were completed, wherever practicable, to have the various banks controlled by the same holding company affiliate examined as nearly as practicable as of the same date in order that a comprehensive picture of the entire group might be obtained and information concerning various relationships within the group be developed. Such arrangements were worked out in cooperation with the chief national bank examiners in the various districts and the State banking authorities, the national banks being examined by the national bank examiners and the State banks by the State authorities and examiners for the Federal Reserve banks.

During 1934 a conference was held in Washington of the Assistant Federal Reserve agents in charge of examinations for the Federal Reserve banks, the chief examiners and the trust examiners for the

Federal Reserve banks, and representatives of the Federal Reserve Board. The conference was called at the request of the Federal Reserve Board in order that those in charge of the examination work for the Federal Reserve banks and the representatives of the Board in Washington might consider together the questions involved in the examination of the State member banks and that the examination activities of the various Federal Reserve banks might be further coordinated and a more uniform procedure developed.

One of the important features of the examinations of the State member banks during the year 1934 was the development of more complete examinations of the trust departments. In accordance with the procedure approved by the Federal Reserve Board in the latter part of 1933, each of the Federal Reserve agents made arrangements to add to his staff one or more examiners especially qualified for the examination of trust departments. In the examinations of the trust departments of the State member banks particular emphasis has been laid upon policies and practices of the banks in the investment of trust funds.

As originally enacted, section 12B of the Federal Reserve Act provided that every member bank should take all necessary steps to become a class A stockholder of the Federal Deposit Insurance Corporation on or before July 1, 1934, and that, upon receipt of an application from a State member bank for such stock, the Corporation should request the Federal Reserve Board to certify upon the basis of a thorough examination of such bank whether or not the assets of the bank were adequate to enable it to meet all of its liabilities to depositors and other creditors as shown by the books of the bank. A program of examinations of the State member banks was therefore developed by the Federal Reserve Board and the Federal Reserve agents to serve as the basis for the required certifications to the Federal Deposit Insurance Corporation. Following the postponement to July 1, 1935, of the effective date of the inauguration of the permanent plan for insurance of deposits, another program of examinations for State member banks was inaugurated in order that the required certifications might be based on current reports of examination.

The Board's Division of Examinations conducted one examination of each Federal Reserve bank during the year.

The head office of the only banking corporation now in operation organized to engage in foreign and international banking business, under the provisions of section 25 (a) of the Federal Reserve Act, generally referred to as the Edge Act, was examined during the year.

The Board's Division of Examinations also made an examination of a corporation principally engaged in international or foreign banking whose stock a national bank sought permission to acquire and hold under the provisions of section 25 of the Federal Reserve Act.

TRUST POWERS OF NATIONAL BANKS

The Board in 1934 approved 70 original and 6 supplementary applications by national banks for permission to exercise fiduciary powers under the provisions of section 11 (k) of the Federal Reserve Act. On December 31, 1934, 1,945 national banks were holding permits to act in fiduciary capacities. During the year 1934, 12 national banks surrendered their rights to exercise trust powers under the provisions of section 11 (k) of the Federal Reserve Act.

In addition to granting trust powers to member banks as stated above, the Board also gave consideration to a considerable number of applications for trust powers where the condition of the bank, the character of the management, the need for fiduciary powers or other related matters were such that the grant of unrestricted trust powers did not appear to be warranted. The disposition of such applications varied according to the facts and circumstances in each case. Certain applications were denied; others were approved in restricted form to permit the applicant bank to acquire certain accounts but not to acquire other fiduciary business of the same character; while in other cases action by the Board was deferred pending an examination of the applicant bank, the strengthening of its capital structure, or action in connection with changes or corrections in the asset condition of the bank, its management, or other pertinent factors. In a number of instances where applications had been originally denied or deferred or where restricted powers only had been granted, the Board subsequently reconsidered the application, and, on the basis of a proper showing as to matters affecting its former action, and such additional information as may have been submitted, authorized the applicant bank to exercise either restricted or unrestricted trust powers, as circumstances warranted.

A list of national banks holding permits to exercise trust powers on December 31, 1934, is printed on pages 236-255.

REDUCTIONS IN CAPITAL STOCK OF MEMBER BANKS

During the year 1934 the Board acted upon applications of 558 national banks for permission to reduce the amount of their capital stock, and 557 of the applications were approved. The Board also approved the applications of 16 State member banks which were subject to a condition of membership requiring the Board's approval of reductions in their capital stock. In practically all cases of both national and State member banks, the reductions were in connection with the issuance of preferred stock or capital notes or debentures, the funds released through the reduction of common stock being used to provide for the elimination of losses and other undesirable assets.

ADMINISTRATION OF SECTIONS 8 AND 8A OF THE CLAYTON ANTITRUST ACT

The Clayton Antitrust Act under certain circumstances prohibits directors, officers, or employees of banks, banking associations, or trust companies organized or operating under the laws of the United States from serving other banking institutions and also prohibits such persons from serving nonbanking organizations which make loans secured by stock or bond collateral. The Federal Reserve Board is authorized subject to certain conditions and limitations to grant permits covering the relationships between banking institutions which, without such permits, would be prohibited by the act. During the year 1934 the Board acted upon approximately 2,270 applications for such permits; and at the close of the year 263 applications were pending before the Board.

A majority of the applications submitted were made necessary by the provisions of section 8A of the act, which was added by the Banking Act of 1933 and became effective January 1, 1934. Under the provisions of such section many relationships which heretofore were not subject to the provisions of the Clayton Act because of the small size or relative location of the banks involved became subject to the provisions of the act.

ADMINISTRATION OF SECTION 32 OF THE BANKING ACT OF 1933

Section 32 of the Banking Act of 1933, which became effective January 1, 1934, makes it unlawful for an officer or director of a member bank to be an officer, director, or manager of an organization engaged primarily in the business of purchasing, selling, or negotiating securities, and prohibits correspondent relationships between such organizations and member banks, except when authorized by a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest and to revoke such permit if the public interest requires.

The Board believes that it was the intent of the Congress in enacting the provision regarding officers and directors of member banks to terminate relationships of certain kinds between member banks and dealers in securities, apparently because the Congress believed that such relationships might tend to influence the banks' credit and investment policies and their advice to their correspondent banks and other customers respecting investments in a manner which the Congress deemed to be incompatible with the public interest. Accordingly, the Board believes that it may not properly issue permits authorizing relationships which are actually of a kind referred to in the section, since to do so would nullify its provisions; and that its

authority to issue permits should be exercised only in exceptional cases, such as those which come within the literal terms of the section but which do not involve relationships of a kind which are actually within its intendment.

During the year 1934, 388 applications of individuals under the provisions of section 32 were filed with the Board. Of this number, 117 were denied, 32 were granted for the period ending June 16, 1934, 7 were granted without limitation as to time, and in 133 cases the Board concluded that the provisions of section 32 were not applicable. In a number of instances consideration of the application was rendered unnecessary by a change in circumstances occurring after the filing of the application. The Board also considered the applicability of section 32 in a number of other cases in which no formal applications were filed.

The Board interpreted the provisions dealing with correspondent relationships as referring to relationships involving the underwriting and distribution of securities. However, since member banks are authorized under other provisions of the law to underwrite and deal in United States Government obligations, municipal bonds, and certain other specified types of securities, the Board decided that it might properly issue permits authorizing correspondent relationships involving securities of those types, and later it issued a blanket permit authorizing such relationships.

AFFILIATES OF MEMBER BANKS

Reports on affiliates of member banks.—The Banking Act of 1933 amended the Federal Reserve Act so as to provide that member banks should obtain such reports from each of their affiliates as would fully disclose the relations between such organizations and the member banks. For the purpose of such reports the term “affiliates” includes both “affiliates” and “holding company affiliates” as defined by the act.

The term “affiliate”, as defined in the act, includes any corporation, business trust, association or similar organization, of which a member bank owns or controls a majority of the voting shares or more than 50 percent of the number of shares voted at the preceding election of directors or controls in any other manner the election of a majority of its directors; of which control is held by shareholders of a member bank who own or control a majority of the shares of such bank or more than 50 percent of the number of shares voted at the preceding election of directors or by trustees for the benefit of the shareholders of a member bank; or of which a majority of the directors are directors of a member bank.

The term “holding company affiliate” includes any corporation, business trust, association or similar organization which owns or

controls a majority of the shares of stock of a member bank or more than 50 percent of the number of shares voted at the preceding election of directors; which controls in any manner the election of a majority of the directors of a member bank; or for the benefit of whose shareholders substantially all of the stock of a member bank is held by trustees.

Each State member bank is required to furnish to the Federal Reserve bank of its district and to the Federal Reserve Board not less than three reports of its affiliates each year on dates identical with its own condition report. It is required that reports of affiliates be published by the bank under the same conditions as govern its own condition reports, and a penalty is prescribed for failure to obtain and furnish any such report. National banks are required to make similar reports to the Comptroller of the Currency.

Number of affiliations.—In response to the call by the Federal Reserve Board and the Comptroller of the Currency for reports as of December 31, 1934, 1,142 national banks and 295 State member banks reported affiliates. These affiliates numbered 2,314, of which 281 were nonmember banks, 227 were safe-deposit or bank-building companies, 124 were foreign organizations, and the remaining were classified as mainly in the fields of finance and investment and real estate. Among the affiliates comprehended by the statutory definition are factories, stores, churches, colleges, newspapers, steamship companies, cemeteries, hotels, and labor unions. A large number of these are in the affiliate relationship accidentally, and not as the result of any purpose of establishing such relationships. In many cases the affiliation is due to the fact that the bank has had to realize on collateral pledged to secure loans, or holds certain property as trustee of an estate, or has been helped out of difficulties of its own by the owners of other businesses. About one-sixth of the affiliates grow out of the liquidation of bad assets of member banks.

Form of control.—About one-fourth of the affiliates reported were owned by stockholders of the member banks reporting them as affiliates, while a little over one-third were owned directly by member banks. The affiliates' reports that have been submitted by member banks indicate that there were 170 holding-company affiliates of active member banks. Twenty-two national banks and 14 State member banks were reported as being holding-company affiliates of other member banks. There were 60 holding-company affiliates which were primarily bank holding companies.

Applications for voting permits by holding-company affiliates.—Under the provisions of the Banking Act of 1933 shares of a member bank which are controlled by a holding-company affiliate of the bank may not be voted unless the holding-company affiliate shall have first obtained a voting permit from the Federal Reserve Board,

which permit is in force at the time such shares are voted. In acting upon an application for a voting permit the Board is required to consider the financial condition of the applicant, the general character of its management, and the probable effect of the granting of the permit upon the affairs of the bank, and may grant or withhold a permit as the public interest may require; but may not grant such a permit except upon certain conditions specified in the law.

During the year 1934 the Federal Reserve Board acted upon the applications for voting permits submitted in accordance with this provision of the law and authorized the issuance of permits as follows: For general purposes, 12; for miscellaneous purposes only, such as issuance of preferred stock, reduction of common stock, etc., 89; for the election of directors for the year 1934 and the transaction of routine matters only, 37; for the election of directors for the year 1934, the transaction of routine matters, and for other miscellaneous purposes, 67; for the election of directors for the year 1935 and the transaction of routine matters only, 82; for the election of directors for the year 1935, the transaction of routine matters, and for other miscellaneous purposes, 29.

As stated previously, during the year 1934 the Board authorized the issuance of 12 general voting permits. Consideration is being given to the issuance of general voting permits in all remaining cases where satisfactory information is available through examination reports, or otherwise, with respect to financial condition, management, and the effect of the relationship upon member banks in the various groups.

PRIVATE BANKS

Section 21 of the Banking Act of 1933 made it unlawful, after June 16, 1934, for any person, firm, corporation, association, business trust, or other similar organization engaged in the business of issuing, underwriting, selling, or distributing securities to engage at the same time in the business of receiving deposits. In view of this provision some of the well-known private bankers have elected to continue in the securities business, and others have elected to continue in the banking business. Those that chose to continue as banks were subject to the requirement that after June 16, 1934, every "person, firm, corporation, association, business trust, or other similar organization, other than a financial institution or private banker subject to examination and regulation under State or Federal law" engaged "to any extent whatever in the business of receiving deposits subject to check or to repayment upon presentation of a passbook, certificate of deposit, or other evidence of debt, or upon request of the depositor" must submit to periodic examination by either the Comptroller of the Currency or a Federal Reserve bank,

and submit and publish condition reports under the same conditions as national banks.

Under this requirement of law 140 private bankers had agreed to such examination and had submitted condition reports to the Comptroller of the Currency as of December 31, 1934. Of the 140 private bankers, 96 had agreed to submit to examination by Federal Reserve banks and 92 such banks were examined during the year. A few banks had agreed so late in the year to submit to examination that it was not practicable to make the examinations before January 1, 1935. Two private banks had agreed to submit to examination by Federal Reserve banks but had refused to agree to pay the costs of the examinations, for which no provision had been specifically made in the law.

The table below shows the number and deposits of private banks at the end of June 1933 and December 1934. For June 1933 the figures represent private banks under State supervision and private banks which, in response to the request of the Comptroller of the Currency, submitted condition reports (on a voluntary basis) directly to the Comptroller.

NUMBER AND DEPOSITS OF PRIVATE BANKS

[Deposits in thousands of dollars]

State	June 1933				December 1934			
	Under State supervision		Not under State supervision ¹		Under State supervision ²		Not under State supervision ³	
	Number	Deposits	Number	Deposits	Number	Deposits	Number	Deposits
Alabama.....							1	38
Arkansas.....							8	211
Connecticut.....	5	2,336			4	629		
Florida.....							4	995
Georgia.....			21	1,901			46	2,325
Indiana.....	58	7,977			33	4,814		
Iowa.....			13	3,070			14	3,896
Kansas.....	3	415			2	432		
Massachusetts.....							1	41
Michigan.....			16	1,645			28	3,777
Missouri.....	1	20			1	16		
New Jersey.....	4	1,557			2	10		
New York.....	14	4,857			18	272,418	2	27,491
Ohio.....	23	5,732			14	2,649		
Pennsylvania.....	12	964			26	57,764	5	1,649
South Carolina.....					1	1,097		
Texas.....			14	2,303			31	15,174
Total.....	120	23,848	64	8,919	101	339,829	140	55,697

¹ Banks from which reports were received by Comptroller of the Currency.

² Figures for Missouri and New York are as of June 30, 1934.

³ Agreed to examination by Comptroller of the Currency or Federal Reserve bank. Of the total, 96 banks agreed to examination by a Federal Reserve bank, 42 by the Comptroller of the Currency, and 2 by either a Federal Reserve bank or the Comptroller of the Currency.

⁴ Figures are as of July 31, 1933.

It will be noted that between June 1933 and December 1934 the number of reporting private banks increased from 184 to 241, principally in the States of Georgia, Michigan, Texas, and Pennsylvania, the increase representing in the case of the first three States private banks not under State supervision and in the case of Pennsylvania private banks that have become subject to State supervision. During the same period total deposits of reporting private banks increased from \$33,000,000 to \$395,000,000, the increase representing principally deposits of private banks in New York and Pennsylvania now operating under State supervision but which had not submitted reports as of June 1933.

MEETINGS OF FEDERAL OPEN MARKET COMMITTEE

In accordance with the provisions of the first paragraph of section 12A of the Federal Reserve Act, four meetings of the Federal Open Market Committee were held in Washington during 1934. These meetings were held on March 5, June 26, September 21, and December 17, 1934. The executive committee of the Federal Open Market Committee met from time to time throughout the year as occasion required.

MEETINGS OF FEDERAL ADVISORY COUNCIL

Four meetings of the Federal Advisory Council were held in Washington during 1934 on the following dates: February 20, May 14-15, September 17-18, and November 19-20. Other material relating to the Federal Advisory Council appears in the appendix.

ORGANIZATION, STAFF, AND EXPENDITURES

On January 1, 1934, Henry Morgenthau, Jr., of New York, succeeded William H. Woodin, of New York, as Secretary of the Treasury and as ex-officio chairman of the Federal Reserve Board. Mr. Woodin became Secretary of the Treasury on March 4, 1933.

The resignation tendered by Eugene R. Black, of Georgia, as member and Governor of the Federal Reserve Board was accepted as of August 15, 1934, and on August 16, 1934, he resumed his duties as governor of the Federal Reserve Bank of Atlanta, where he remained until his death on December 19, 1934. Mr. Black became Governor of the Board on May 19, 1933.

Effective November 15, 1934, Marriner S. Eccles, of Utah, was appointed a member of the Federal Reserve Board for the unexpired portion of the term ending August 9, 1938, and was designated as Governor of the Board, succeeding Mr. Black.

On August 21, 1934, J. J. Thomas, of Nebraska, who had been a member of the Federal Reserve Board since June 14, 1933, was designated Vice Governor.

On August 9, 1934, the term of Adolph C. Miller, of the District of Columbia, as a member of the Federal Reserve Board expired, and on August 21, 1934, Mr. Miller was reappointed a member of the Board for a 12-year term beginning August 10, 1934.

Effective at the close of business on October 30, 1934, H. Warner Martin resigned as assistant to the Governor of the Federal Reserve Board. Mr. Martin had served in that position since August 16, 1933. Effective December 1, 1934, the Board appointed Lawrence Clayton as assistant to the Governor to succeed Mr. Martin.

On November 24, 1934, the Board created a new division within its organization known as the Division of Security Loans, with Carl E. Parry, formerly assistant director of the Board's Division of Research and Statistics, as chief of the new division. On the same date Lauchlin Currie and Woodlief Thomas were appointed by the Board as assistant directors of the Division of Research and Statistics.

Joseph T. Owens was appointed assistant counsel to the Federal Reserve Board, effective April 9, 1934. Gray Williams was appointed assistant counsel to the Federal Reserve Board, effective April 11, 1934. Mr. Williams resigned effective at the close of business on August 25, 1934. H. Lee Boatwright, Jr., who was appointed assistant counsel to the Federal Reserve Board, effective May 3, 1933, resigned at the close of business on December 31, 1934. John C. Baumann was appointed assistant counsel to the Federal Reserve Board, effective December 31, 1934.

The total cost of conducting the work of the Board during the year 1934 was approximately \$1,266,931. Two assessments were levied against the Federal Reserve banks aggregating \$1,372,021.74, or somewhat less than one-half of 1 percent of their average paid-in capital and surplus for the year. Under an arrangement with the Federal Reserve Bank of Cleveland the accounts of the Board were audited four times during the course of the year 1934 by the auditor of the Federal Reserve Bank of Cleveland and certified by him to be correct.