

Office Correspondence

FEDERAL RESERVE
BOARD

11102-40
Date April 9, 1935.

To Governor Eccles

Subject: _____

From Lauchlin Currie

L.C.

REC'D IN FILES SECTION
MAR 22 1935
11102-40

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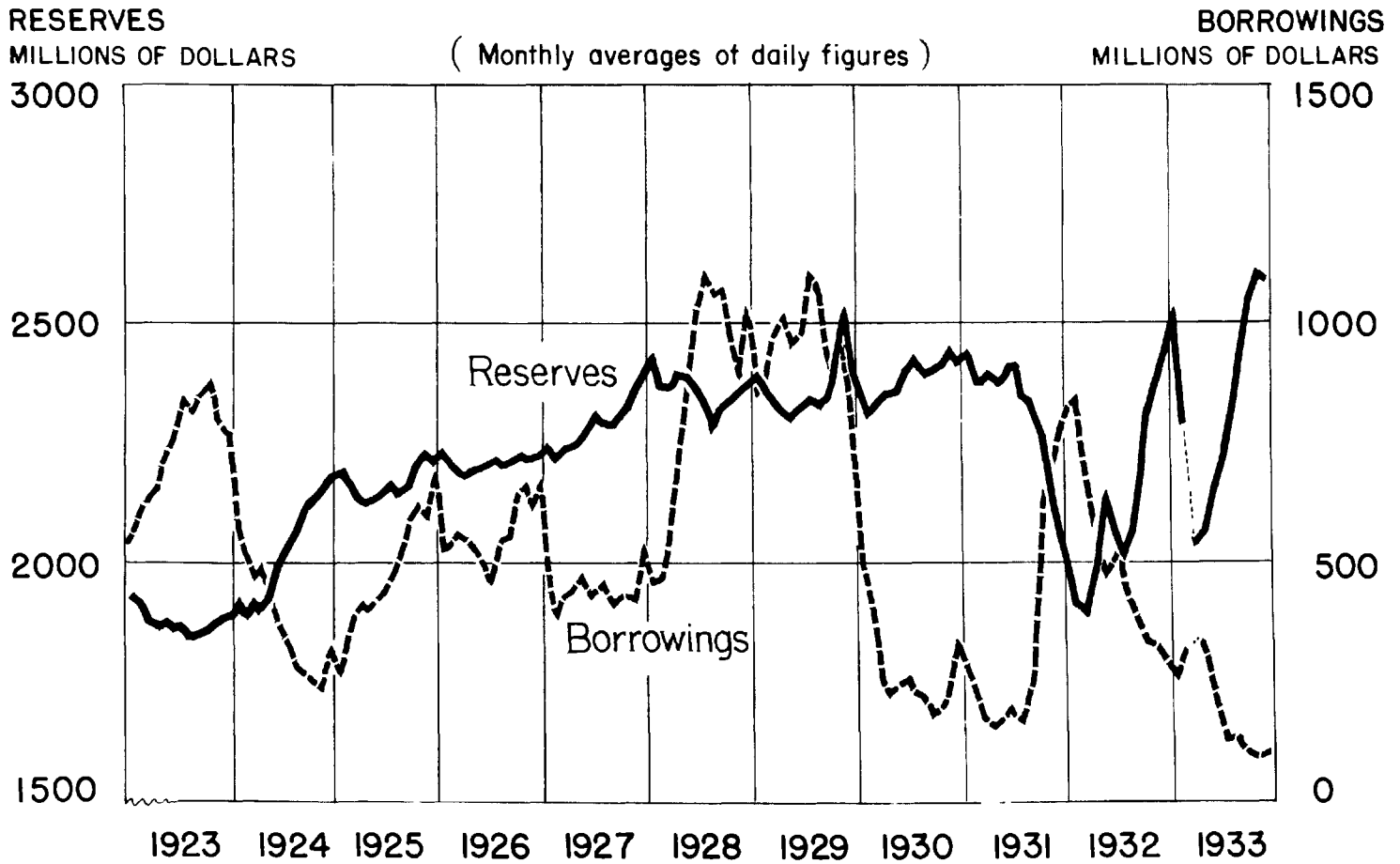
In connection with the alleged relationship between production, currency in circulation, and commercial borrowing, I thought it might be useful to plot these series on a chart. The chart brings out very clearly the absence of any constant relationship between these series. From 1924 to 1929 production went up, currency in circulation remained constant, and eligible paper declined. In 1931-32 production and eligible paper declined, while currency in circulation (that is, cash outside of banks on June 30th) increased. In 1933-34 production went up, currency in circulation declined, and eligible paper remained fairly constant.

If you think it worthwhile, I could have a large chart prepared or I could have a number of copies lithographed from this chart.

I am also attaching another chart on indebtedness to reserve banks, and reserves of member banks. The point of this chart is to show that the banks as a whole do not borrow for the purpose of increasing their reserves. They borrow only to make up a loss of reserves. It will be noted that the years when reserves increased most rapidly (in 1924, 1927, 1932, and 1933) were the years in which member banks were decreasing their borrowings from reserve banks.

If you will check the movements of commercial loans and of borrowings of member banks from reserve banks you will observe again that no relationship exists.

INDEBTEDNESS TO RESERVE BANKS AND RESERVES OF MEMBER BANKS

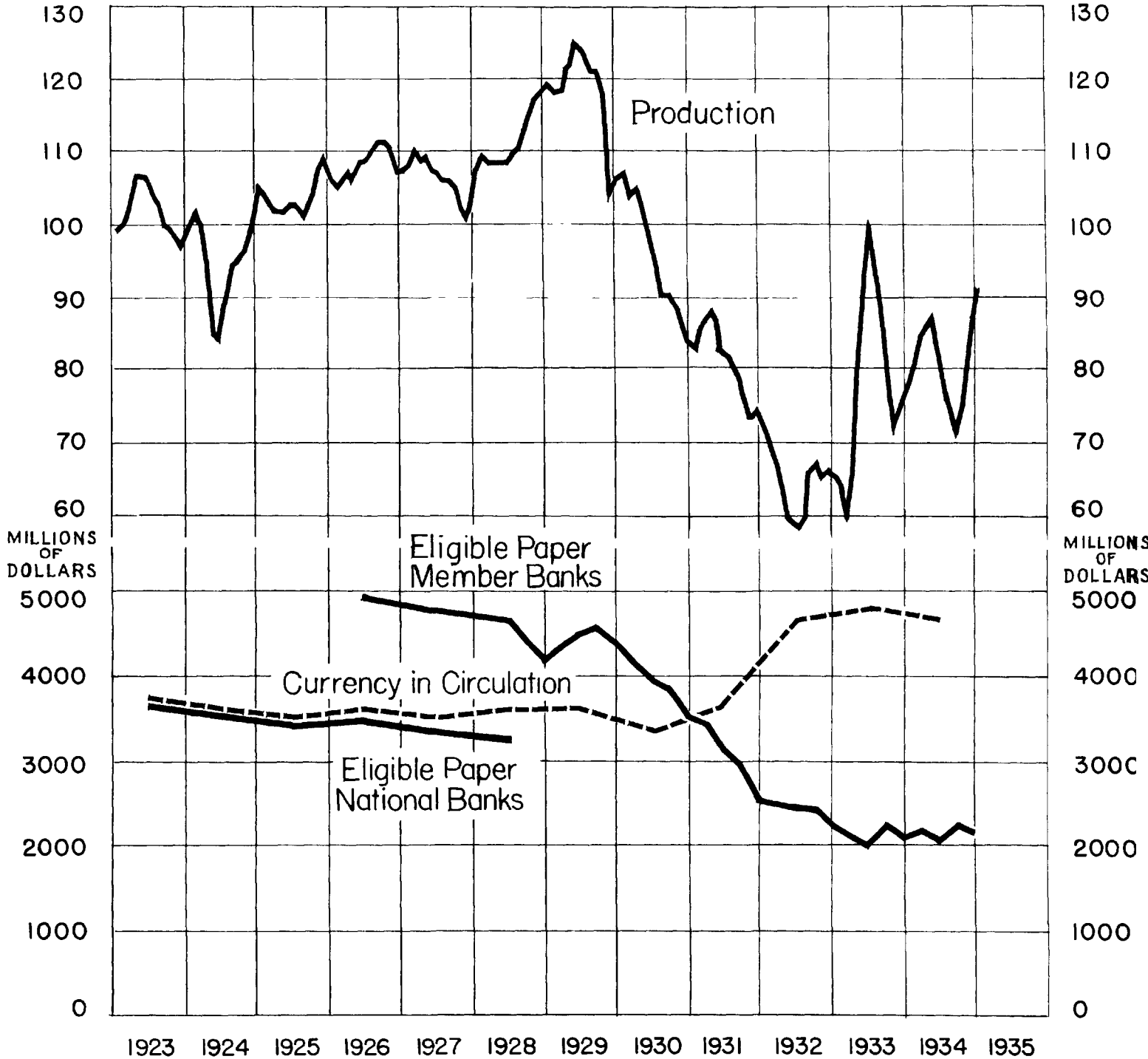


ELIGIBLE PAPER AND BUSINESS ACTIVITY

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