

(To be distributed to selected banks and corporations if and when the project is approved)

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A SAMPLE STUDY OF THE DISTRIBUTION AND ACTIVITY OF DEPOSITS

I - General

Although much information is available on aggregate deposits, little is known of the distribution of deposits among the different groups of the community and the different types of business enterprise, or of changes in their distribution. It is believed that such information would contribute to an understanding of many questions of bank management and banking policy. Valuable though such information would be to member banks and to the Reserve Administration, it is doubtful whether it would be feasible to ask the banks themselves to furnish it directly, both because of the magnitude of the task and because of the present depressed state of bank earnings. The initiation of the Federal Works Relief Program, however, makes possible the gathering of the necessary data with a minimum of expense and inconvenience to member banks. In securing this information the Federal Reserve System would, moreover, be cooperating in the Government's effort to provide employment for those who are now on relief. It is, therefore, proposed to initiate a Works Relief project, in order to have transcribed and tabulated for the periods January 1928-June 1931 and July 1933-December 1934 the monthly checking accounts of selected individuals and businesses; selected time deposits in excess of \$25,000; the bank borrowings of the selected businesses whose deposit balances are transcribed; and the credits to the selected personal checking accounts.

II - Purpose

The information which it is desired to obtain bears on two distinct though related problems -- the distribution of deposits and the activity of personal checking accounts. Information on the distribution of deposits and of changes in the distribution should (a) be a step toward the study of the motives which lead individuals and corporations to vary the size of their deposit holdings, and thus aid in both policy-making and bank management; (b) throw light upon current developments in business, and hence aid in the formulation of banking policy; and (c) throw light upon the variability of deposits by types of depositors and by size, and thus aid in problems of bank management and the proper distribution of assets.

More specifically, such information would aid in answering the following questions:

1. What are the changes in the deposit holdings of various groups and classes in response to increasing or decreasing security speculation? Did the deposits of financial concerns increase relatively to industrial and personal deposit holdings in 1928-1929? What, if any, marked shifts occurred during and after the stock market crash?

2. Do changes in the rate in which money flows from producers to consumers and from consumers to producers evidence themselves initially in a change in the deposit holdings of different groups?

3. Is the downward trend of business activity associated in any way with a marked shift of deposits from personal to industrial or financial accounts? Is an upward movement associated with a shift in the opposite direction?

4. What is the significance of sudden and pronounced changes in the deposit holdings of particular groups? Obviously, knowledge of the nature and extent of such changes is essential before their significance can be studied.

5. What factors determine the deposit or monetary requirements of individuals and different types of businesses? How far are such requirements a function of income, of wealth, of the volume of operations, of the length of the period of production, of business expectations, etc? Information on the distribution of deposits and of changes in the distribution is a prerequisite for a study of such factors.

6. What changes in its deposits may an individual bank experience in upward and downward movements of business? This is an all-important question from the point of view of bank management, and it must in the final analysis be a matter for individual bank study. Generalized information on the variability of deposits in the past, according to location, size of deposits, and type of depositors, should, however, be of assistance to bankers in assessing the probable variability of their own deposits and therefore in planning a safe and profitable distribution of their assets.

7. What is the reaction of different types of deposits to the initiation of service charges? Some light on this problem may be obtained by a study of deposits before and after such initiation.

8. What is the relation of customers' deposit balances to their borrowings from a bank? Do their deposits vary directly or inversely with their borrowings? How large are the deposits of borrowers in relation to their loans? More comprehensive information on this subject would be helpful both to bankers and to students.

Information on the activity of selected personal checking accounts would likewise aid in the understanding of various problems. For a number of years fairly comprehensive information has been available on total bank debits. The usefulness of this series, however, has been impaired by the absence of breakdowns by types of expenditures and by classes of depositors. Highly significant types of expenditures have been concealed in the enormous total of expenditures, which have much less economic

significance. Little can be done at this time on a classification of debits by types of expenditures, but a start can be made on a classification by a particular group of depositors, namely, consumers. If it can be established that credits, and, less certainly, debits, correspond fairly closely to the incomes of large classes of consumers, particularly in the middle income groups, current credits figures would be a valuable index of current incomes, one of the most important of all economic series. One of the objects of the project, therefore, is to obtain the debits and credits to the personal deposit balances studied. By linking up this aspect of the study with such data as are available on incomes, a test as to the correspondence of credits, debits and incomes can be made. Information may also be obtained on the size of deposits in relation to incomes and on the typical response of the deposits of individuals to an increase or decrease in incomes.

III - Description and Scope of Project

In view of the large number of banks and deposit accounts in this country, it is not feasible to attempt a complete coverage study for the extended period in mind. Recourse must be had to sampling and the problem becomes one of obtaining as good a sample as possible. Some five hundred banks were tentatively selected in such manner as to give assurance of an adequate representation of the deposit balances of different classes of personal accounts, of different classes of businesses, and of different regions of the country.

These banks are being asked to provide desk space and to permit access to their back ledgers to from two to six relief workers, depending upon the size of the bank and the space available. If the banks cooperate in as full a manner as it is hoped, it is expected that about a million accounts for a five-year period will become available for tabulation and analysis. In addition, credits and debits to a substantial group of individual personal accounts, and the current bank borrowings of a group of business customers, will likewise be available. It is planned to restrict the transcription of deposits for the most part to checking accounts. An attempt will be made, however, to obtain a sample of time deposits in excess of \$25,000. Accounts will be transcribed as of the Wednesday between the sixth and the twelfth of each month.

Balances of larger corporations which are customarily distributed among many banks give rise to special difficulties when a sampling technique is employed. To include in the study that part only of a corporation's deposits which happens to be in one of the selected banks would offer a most insecure basis for drawing any conclusions as to the behavior of the total deposits of the corporation. To exclude all large corporation deposits, however, would seriously impair the representativeness of the sample, and detract from the value of the study. The best way out of this difficulty would be to obtain the deposit holdings directly from a sample of the larger corporations. It is planned, therefore, to ask the cooperation of selected corporations in this matter.

It is proposed that the study cover the period from January 1928 to June 1931, inclusive, and from July 1933 to December 1934, inclusive. By choosing these two periods, the behavior of deposits during an upswing, a critical turning point, a depression, and the beginnings of recovery, may be studied. The period from July 1931 to June 1933 is omitted because of the hoarding, bank failures, and shifts of deposits, that characterized that period. Such factors would seriously impair the value of a sample study.

IV. - Supervision

General supervision of the project will be undertaken by the Division of Research and Statistics of the Federal Reserve Board. Designated officers in the Federal Reserve banks will act as regional supervisors. Field supervisors will arrange with the local United States Employment Service and with the participating banks' officers for the appointment of white-collar workers and will supervise their work. It is expected in this way to reduce the inconvenience to the participating banks to a minimum. Tabulation of the data will be carried out in New York, where the largest number of skilled white-collar workers are on the relief rolls.

V. - Confidential Nature of Source Material

It is appreciated that the information required is of a highly confidential character, and every possible precaution will be taken to prevent any disclosures. No agency other than the Federal Reserve Board will have access to the original forms. The names of the banks' customers will be detached from the schedules

by the field supervisors and thereafter will be related to the schedules by code numbers. It is expected that the relief workers employed will be mainly former employees of financial institutions who already appreciate the confidential nature of personal financial accounts. Finally, it is expected that the bank officers concerned will suggest names or qualifications and interview applicants sent to them by the local United States Employment Service, so that they will be in a position to satisfy themselves as to the discretion and integrity of the persons given employment. In the smaller cities it may prove desirable to bring in strangers from neighboring large cities.

VI - Time Required for Completion of Project

If work can be started by October 1st, 1935, it is expected that final tables will be available for analysis by June 1, 1936. It is planned to provide work for eight months for each person employed.

VII - The Magnitude of the Project,

It is estimated that the project as now drawn up would involve the expenditure of \$1,300,000 and give employment to two thousand persons.