

## RECENT DEPOSIT EXPANSION AND BANK LENDING

During 1947, the Government's fiscal and debt management policies have been directed to reducing the nation's money supply and hence have been anti-inflationary. These policies have functioned by applying the budget surplus to the retirement of bank-held debt, thus reducing the money supply by an equivalent amount. This has been a reversal of the process by which the money supply was expanded in wartime.

In the first ten months of the year, about 6 billion dollars of bank-held Government securities were retired by the Treasury. These retirements, which were made possible through funds obtained from an excess of current tax receipts over expenditures, cancelled an equal amount of bank deposits. Additional retirements of securities held by nonbank investors were also made by the Treasury during this period, the funds being obtained from sales of nonmarketable issues in excess of redemptions. Such retirements amounted to over 3 billion dollars, and these operations neither increased nor decreased the volume of deposits.

If no other factors had affected banking conditions this year, total deposits and the money supply now would be 6 billion dollars smaller than at the beginning of the year. This would have been an anti-inflationary influence of considerable consequence.

Actually, the demand and time deposits of individuals, businesses, and State and local governments at commercial banks have increased by almost 4 billion dollars since the beginning of the year. This growth in deposits has been about equally divided between demand and time.

Contraction of bank deposits was averted and expansion of deposits made possible in the first ten months of the year by the following major factors:

- (1) Although the Treasury retired 6 billion dollars of bank-held debt, the commercial banking system replaced almost 2 billion dollars of its holdings by purchases from nonbank investors.
- (2) The privately-held deposits at commercial banks were augmented by a 2.5 billion dollar gold inflow which accompanied the economy's large excess of exports over imports.
- (3) The commercial banks increased their loans over the period by almost 6 billion dollars. In addition, they added through purchase about 1 billion dollars of State and local government securities to their investment portfolios.

If gold acquisitions had been the only factor offsetting the Treasury's retirement of bank-held debt, fiscal policy would still have succeeded in effecting some reduction in the economy's redundant and inflationary money supply inherited from war. If gold acquisitions and purchases of Government securities by the banking system from nonbank investors together had been the only factors offsetting fiscal policy, such policy would have succeeded in checking further expansion in commercial bank deposits. But with private expansion of bank credit of nearly 7 billion dollars, together with these other factors, anti-inflationary fiscal policy was more than offset and the total volume of commercial bank deposits and the total money supply has undergone a further inflationary expansion.

In commenting on recent banking developments and monetary expansion, the November issue of the Federal Reserve Bulletin for this year states:

"Inflationary pressures, which have been exerted on the economy with great vigor during the postwar period, had their roots in the tremendous growth of liquid assets accumulated by individuals and businesses during the war, when incomes expanded more rapidly than goods and services available for purchase. The continuing upward spiral of prices, profits, and wages and other costs since the war has been largely self-generating, but has been augmented by the expansion of bank credit to businesses, real estate owners, and consumers. Some increase in bank lending has been needed to facilitate the conversion of the economy from a war basis to a peacetime status on a much higher level than had prevailed before the war. Nevertheless, to the extent that the loans have not facilitated increased production, loan expansion has accelerated inflation. In addition, the deposit funds created in the first instance by loans, whether for production, consumption, or speculation purposes, have found many inflationary uses in subsequent transfers among holders."

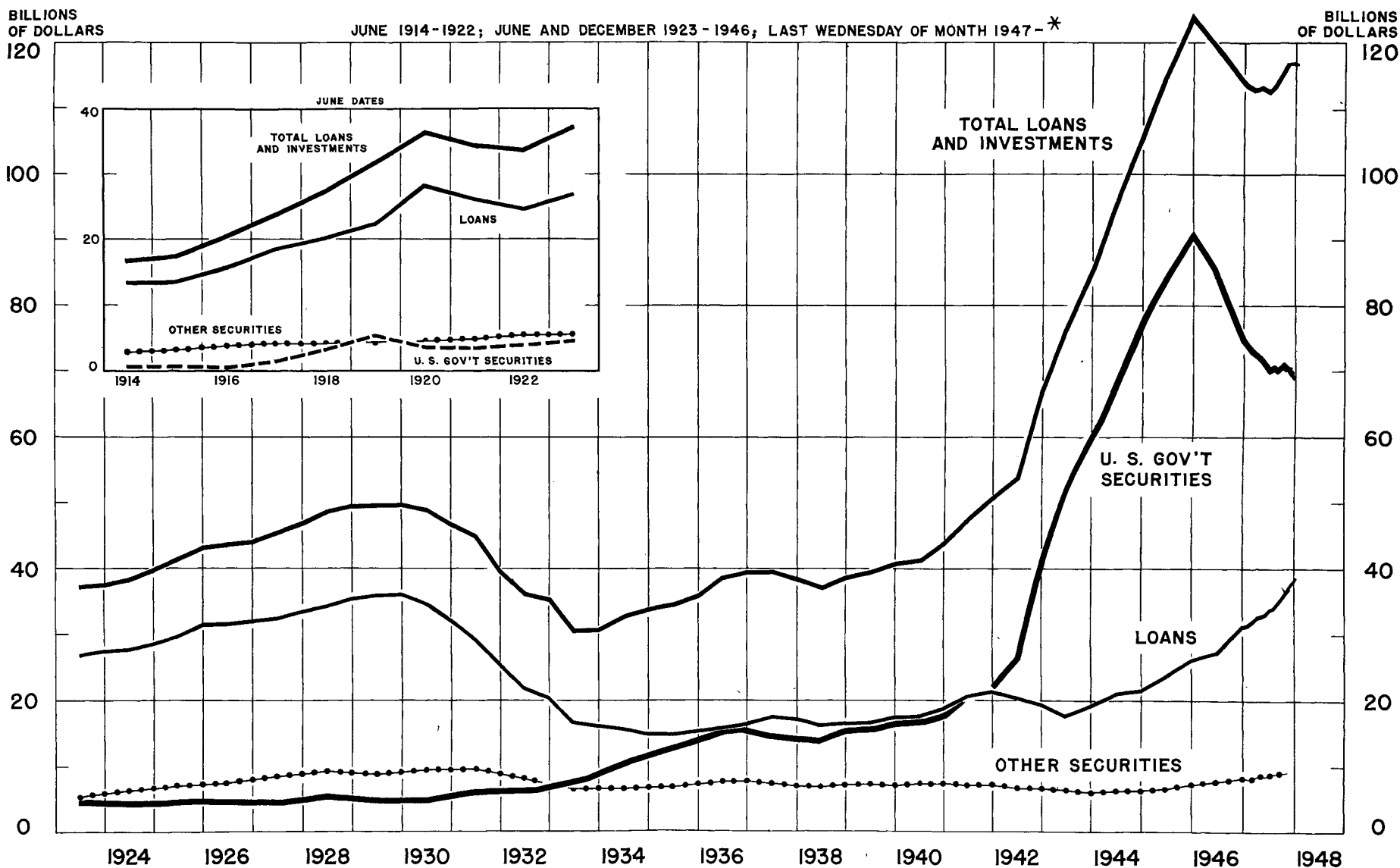
The attached table shows the monthly figures of principal assets and liabilities for all commercial banks during the first ten months of this year.

Principal Assets and Liabilities of All Commercial Banks  
 Figures partially estimated  
 (In billions of dollars)

	Loans and investments				Reserves, cash, and bank balances	Deposits				Total capital accounts
	Total	U.S. Government securities	Other securities	Loans		Inter- bank	U.S. Govern- ment	Demand adjusted 1/	Time	
1939, June 30.....	39.4	15.7	7.2	16.4	19.8	8.2	.8	27.4	15.1	6.9
1945, December 31.....	124.0	90.6	7.3	26.1	34.8	14.1	24.6	75.9	30.1	9.0
1946, June 29.....	119.4	84.5	7.8	27.1	32.4	12.3	13.4	79.5	32.4	9.4
December 31.....	114.0	74.8	8.1	31.1	34.2	12.7	3.1	83.3	33.8	9.6
1947, January 29.....	113.8	74.3	8.0	31.5	32.2	12.2	3.1	82.5	33.9	9.6
February 26.....	113.0	73.0	8.1	31.9	32.2	12.0	3.9	80.6	34.2	9.6
March 26.....	113.1	72.4	8.3	32.4	31.6	11.8	3.8	80.4	34.3	9.7
April 30.....	113.0	71.8	8.4	32.8	32.2	11.8	2.8	81.3	34.5	9.7
May 28.....	112.7	71.3	8.3	33.1	31.7	11.5	2.1	81.5	34.6	9.8
June 30.....	112.5	70.3	8.5	33.7	32.7	11.6	1.0	82.5	34.7	9.8
July 30.....	113.2	70.5	8.7	34.0	32.0	11.3	1.1	83.2	34.7	9.8
August 27.....	113.8	70.2	8.7	34.9	32.2	12.1	1.5	83.4	34.8	9.9
September 24.....	115.1	70.6	8.9	35.6	33.2	12.7	1.6	84.2	34.9	9.9
October 29.....	116.4	70.5	9.0	36.9	33.8	12.4	1.8	85.5	35.3	10.0

1/ Gross demand deposits, other than interbank and United States Government deposits, less cash items in process of collection.

# LOANS AND INVESTMENTS OF ALL COMMERCIAL BANKS

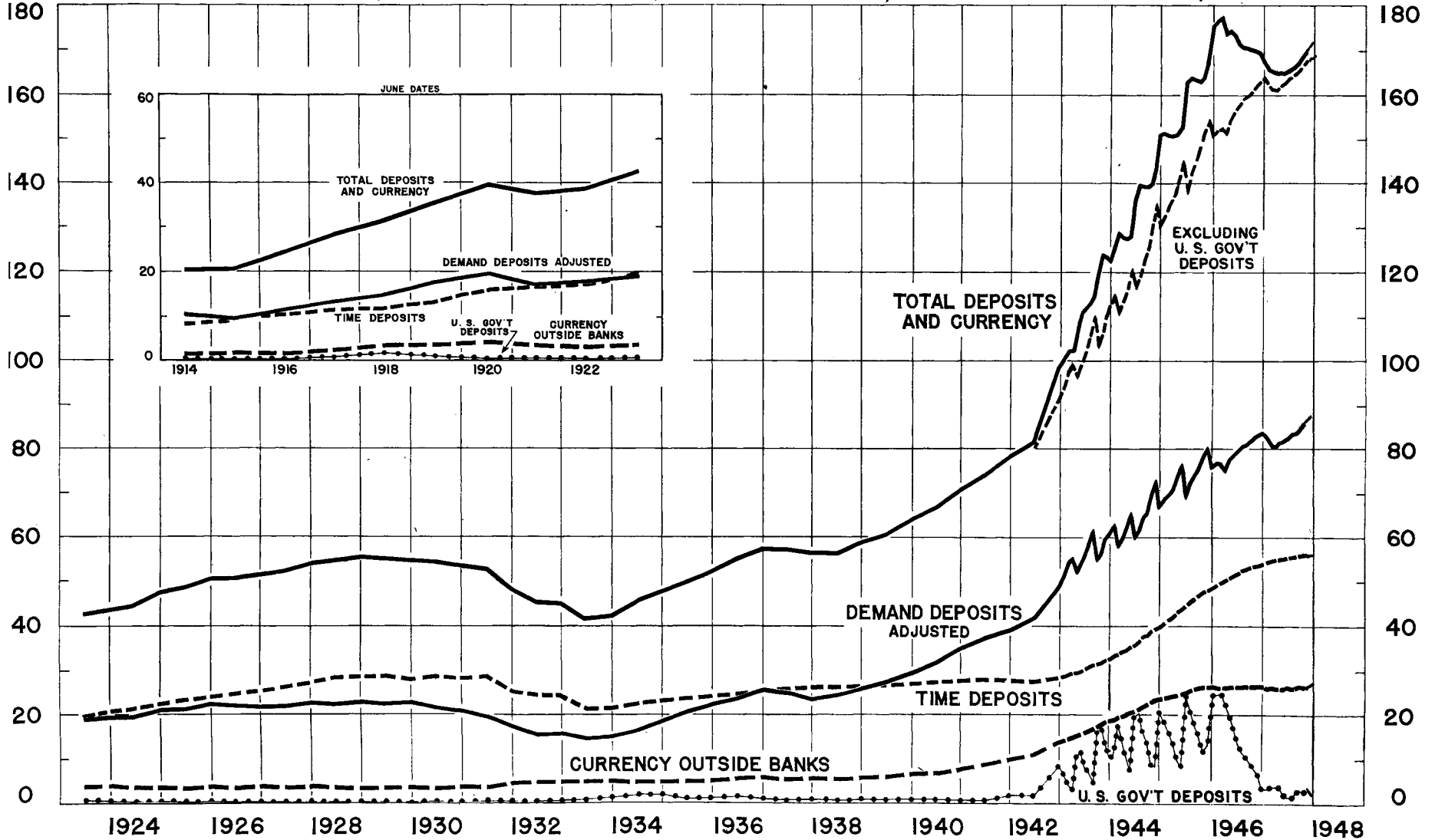


BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

\* FEDERAL RESERVE ESTIMATES.

# DEPOSITS AND CURRENCY ALL BANKS IN THE UNITED STATES

BILLIONS OF DOLLARS      JUNE 1914 - 1922; JUNE AND DECEMBER 1923 - 1942; END OF MONTH 1943 - 1946; LAST WEDNESDAY OF MONTH 1947 - \*      BILLIONS OF DOLLARS



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

\* FEDERAL RESERVE ESTIMATES.  
DEMAND, TIME DEPOSITS  
PARTLY ESTIMATED.