Speech 5/18/39

(May 16, 1939 - ET)

Outline for Texas Bankers Association

	Member bank deposits adjusted	Money in circulation
Dec. 1929	16.6	4.5
Dec. 1938	22.2	6.8

1. Deposits and currency; ~~all banks, are about $59 billions now, compared with slightly more than $55 billions at 1929 peak.~~

	Deposits (billions, ex. interbank.)		Loans		Investments	
	All banks	Members	All banks	Members	All banks	Members
Dec. 31, 1929	55.2	33.8	41.9	26.1	16.4	9.7
Dec. 30, 1933	38.5	23.7	21.9	12.8	18.3	12.3
Dec. 31, 1938	54	36.2	21.3	13.2	27.5	18.8

Dallas District

	Deposits		Loans		Investments	
	All banks	Members	All banks	Members	All banks	Members
December, 1929	1186	913	907	714	273	222
December, 1933	828	693	423	348	335	299
December, 1937	1295	1106	525	443	483	425
December, 1938	1352	1160	540	456	504	446

2. Excess reserves, which were practically non-existent during the '20's, were estimated to be approximately $4,190,000,000 on May 10, 1939.

If reserve requirements were raised to full amount allowed by law and portfolio of about $2.5 billions sold, it could absorb only $3,300,000,000 of excess; if Treasury were to disburse gold in Stabilization Fund and elsewhere and issue silver certificates against silver bullion it holds, another $4,000,000,000 of reserves would be added, and further gold and silver acquisitions add still more.

Required and excess reserves of member banks in Dallas District:

	Required	Excess
December 31, 1929	$ 62,225,000	$ 2,791,000
December 31, 1937	144,310,000	45,221,000
December 31, 1938	128,252,000	54,244,000

3. Earnings:

Earnings and Expenses of Member Banks

(in millions of dollars)

	1929	1933	1937	1938
Total current earnings	2,399	1,237	1,321	1,274
Total current expenses	1,684	859	902	890
Net current earnings	715	378	419	384
Recoveries, profits on securities sold, etc.	137	124	256	279
Losses and depreciation	295	858	338	398
Net losses and depreciation-	158	734	82	119
Net profits	557	*-356	337	265
Cash dividends declared .	409	151	201	198

*Net deficit.

Earnings and Expenses of member banks, Dallas District

	1929	1937
Interest earned:		
On loans	53,600	24,762
On investments	9,619	12,031
On balances with other banks	2,309	9
Total	65,528	36,802
Domestic Exchange and collection charges, foreign dept., commissions, trust dept., profits on securities sold, and other earnings	8,424	8,596
Gross earnings	73,952	45,398
Interest on deposits	16,402	3,309
Interest on borrowed money	2,174	24
Salaries and wages	16,586	13,190
Taxes	4,907	3,937
Other expenses	9,329	9,162
Total expenses	49,398	29,622
Net earnings	24,554	15,776
Net losses	9,226	469
Net additions to profits	15,328	15,307
Dividends declared	10,588	6,337
Loans	726,885	402,820
Investments	247,743	431,769
Earning assets	974,628	834,589
Capital funds	171,219	152,828

4. <u>Reserve banks also have problem of earnings and expenses.</u>

	Current Earnings	Current Expenses	Net Earnings
1929	$70,955,496	$29,691,113	$36,402,741*
1938	36,261,428	28,911,608	9,581,954**

*Of this, $9,583,913 was paid in dividends to member banks; $4,283,231 paid in franchise tax to U. S. Treasury; and $22,535,597 transferred to surplus.

**Of this, $8,019,137 was paid in dividends to member banks; and $1,862,433 transferred to surplus.

In 1934, $139,299,557 was taken for the FDIC fund.

Expenses of Reserve banks have been cut by $10 millions; while in number of pieces handled, i.e., currency and coins received and counted, checks handled and collection items, the volume of work has not diminished. The dollar volume of bills discounted fell from $60,747,124,000 in 1929 to only $10,472,000 in 1938, though, in addition, there were advances made of $226,687,000 exclusive of $6,500,000 of industrial advances.

In recent years earnings of the System have come almost entirely from its open market portfolio. In 1929, $47,790,662 of System earnings came from discounted bills, where in 1938 only $124,000 came from bills discounted.

5. <u>Problem of interest rates is essentially a problem of excess reserves</u>; as long as present and prospective unprecedented conditions continue, the Reserve System is not only too far away from the market to exercise the degree of control usual for a central banking system, but rates cannot be expected to firm.

6. Origin of excess reserves. Heavy gold inflow began in 1934.

Total net imports into the United States were ($35 an ounce):

1934	-	$1,131,994,000
1935	-	1,739,019,000
1936	-	1,116,584,000
1937	-	1,585,503,000
1938	-	1,973,569,000

In January, February and March of this year another three-quarters of a billion came in.

See attached chart for effect on total deposits and currency. It shows that in 1929, for example, of the $55 billions of bank deposits and currency, only $4 billions was due to gold; $5.5 to Government obligations; and $45.7 to loans and investments principally; whereas, by December, 1938, the total of $59 billions of deposits and currency was due to nearly $12 billions of gold stock, to $18 billions of U. S. Government obligations, and only $29.2 to other factors, i.e., loans and investments.

In addition to gold, about a billion and a quarter has been added to the reserves as a result of silver purchases and about that much again could be piled on top of this on the basis of bullion held against which silver certificates have not been issued. (Mention testimony opposing continued buying of foreign silver.)

7. How is this situation to be met? The bankers want higher interest rates and they do not want their excess reserves absorbed. The alternatives before them are (1) that gold will flow back to Europe, but this is wholly unlikely even if there were peace abroad because, in effect, gold comes here in payment of foreign trade; (2) that the reserves would be absorbed by loans and investments, but this would mean a fantastic inflation since the existing volume of excess reserves would support a credit structure that would about double bank deposits; (3) that interest rates will continue a downward trend on long-term rates, short-term rates already being at times at a no-yield level on Government bills; or (4) that the bankers join in a constructive step to get the situation back under control, as it was for a while after the Board's actions on reserve requirements, and re-create a central banking control such as exists in every other important nation in the world. If Congress undertakes a study, as the Board has urged, this will be the place for the bankers to say, specifically, how to meet the problem or at least not to stand off and oppose practical recommendations that may be made by others to deal with it.