

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date March 11, 1939.

To Chairman Eccles

Subject: Movements of Time and Demand

From Lauchlin Currie

Deposits.

In accordance with your request, I am attaching two charts. One will enable you to compare the absolute movements in the two types of deposits. The other indicates more clearly the relative percentage movements.

1. You will observe that time deposits in member banks grew more rapidly than in mutual savings banks. I think the explanation is partly that mutual savings banks are fairly heavily concentrated in New England, and partly that there are conveniences in carrying both your savings and your checking accounts in the same bank.

2. A point of more significance than the relative rate of growth is the nature of the movement. Time deposits in both savings banks and member banks outside New York City exhibit far greater evenness in their movements than is true of demand deposits.* This suggests that they are influenced mainly by the savings habits of depositors than by such factors as gold flows and Federal Reserve policy. Time deposits in New York City exhibited more erratic movements and were evidently influenced more by shifts in corporate balances. They were, however, relatively small.

3. If the growth in time deposits in the Twenties represented funds that would otherwise not have been invested and would have remained idle, this should show up in an increase in the income velocity of the remaining deposits subject to cash plus currency. Actually the income velocity showed no trend from 1923 to 1928. It increased in 1929 but this was a year in which time deposits increased least!

Another way of putting this is to point out that if money is taken to include time deposits, then from 1923 to 1929 there was a steady decline in the income velocity of money, so defined. The relatively greater expansion of "money" (so defined) in the Twenties was completely offset by a decline in the income velocity of such "money".

* The apparent somewhat greater irregularity in the movement of time deposits in member banks than in savings banks is mainly owing to the fact that the former are plotted for call dates while the latter are for June 30 only.