



School of Banking  
at the  
University of Wisconsin

Sponsored by the Central States Conference

\* \* \* \* \*

BASIC ECONOMIC PROBLEMS

J. Marvin Peterson, Sectional Leader

\* \* \* \* \*

Lecture by

O. S. Powell, Member  
Board of Governors of the Federal Reserve System

\* \* \* \* \*

August 22, 1951

BEHAVIOR OF BANK DEPOSITS

BEHAVIOR OF BANK DEPOSITS

I. It is difficult for bankers to see the effects of national events on their own volume of deposits.

1. A rising level of bank loans
2. Changes in bank holdings of securities
3. Gold movements

II. The trends of deposits and bank assets 1939-1950

All Banks in the United States

(In Millions)

	Dec. 30 1939	Dec. 31 1945 (Peak)	Dec. 31 1949	Dec. 31 1950	June 28 1951 <sup>p</sup>
<u>Deposits</u>					
Inter-bank	\$ 9,874	\$ 14,065	\$ 12,710	\$ 14,039	\$ 11,620
Demand	32,516	105,935*	96,156	104,744	101,850
Time	25,852	45,613	55,601	56,513	57,210
	<u>\$68,242</u>	<u>\$165,612</u>	<u>\$164,467</u>	<u>\$175,296</u>	<u>\$170,680</u>
<u>Loans</u>	\$22,165	\$ 30,362	\$ 49,544	\$ 60,386	\$ 64,050
<u>Investments</u>					
U. S. Government	\$19,417	\$101,288	\$ 78,433	\$ 72,894	\$ 68,790
Other	9,302	8,577	12,621	14,741	15,110
	<u>\$28,719</u>	<u>\$109,865</u>	<u>\$ 91,054</u>	<u>\$ 87,635</u>	<u>\$ 83,900</u>
<u>Cash Assets</u>	\$23,292	\$ 35,415	\$ 36,522	\$ 41,086	\$ 37,620

\*Includes deposits of the U. S. Government, War Loan accounts and other, of \$24,000 million on December 31, 1945. (insured banks only)

<sup>p</sup> Preliminary

III. A firm or individual may make a purchase or pay a debt by:

Effect on deposits

1. Paying currency - flows back to banks and increases deposits
2. Drawing a check - merely transfers a deposit from one bank to another
3. Selling a bond - depends on who buys the bond
  - if an individual, there is no change in deposits
  - if a bank, there is a deposit increase
4. Borrowing from a bank and using resulting deposit - bank deposits increase
5. Paying a bank loan by drawing on deposit - bank deposits decrease.

IV. Liquid and semi-liquid asset holdings of individuals and business:

(In billions)

<u>Business Holdings</u>	<u>Dec. 1939</u>	<u>Dec. 1945</u>	<u>Dec. 1949</u>	<u>Dec. 1950p</u>
Currency	1.6	4.7	4.6	4.6
Demand deposits	12.5	33.7	34.2	34.6
Time deposits	2.0	3.1	3.5	3.6
Savings & loan shares	0.1	0.2	0.3	0.4
U.S. Govt. securities	3.2	31.3	23.4	25.8
Total	19.4	73.0	66.0	69.0
<u>Personal Holdings</u>				
Currency	4.2	20.8	19.7	19.7
Demand deposits	8.4	26.5	29.6	31.2
Time deposits	24.3	44.6	53.5	53.9
Savings & loan shares	3.9	7.0	11.9	13.4
U.S. Govt. securities	8.8	55.6	62.0	63.9
Total	49.6	154.5	176.7	182.1
Grand Total . . . . .	69.0	227.5	242.7	251.1

p Preliminary

V. Will deposits decrease nationally? If so, here are the possible events which would cause decline:

1. Withdrawing currency for circulation or hoarding
2. Buying gold for export
3. Redeeming securities held by banks (U.S. Treasury the largest bonded debtor)
4. Banks selling their security holdings to depositors
5. Repaying loans
6. Reducing interbank deposits



(V. Continued)

7. Paying interest on bank loans or bank-held investments, thus transferring funds from deposits to undivided profits.
8. Writing off assets in amounts larger than can be charged against capital accounts.

Note: While these are the principal ways in which the national total of deposits can be reduced, deposits are continually shifting from bank to bank and from one section of the country to another.

VI. Some postwar factors determining national deposit trend.

1. Changes in money in circulation  
After World War I currency declined 20% from the war peak.

Currency in circulation

Dec. 31, 1939	\$ 7,598,000,000
Dec. 31, 1945	28,515,000,000
Dec. 31, 1949	27,600,000,000
Dec. 31, 1950	27,741,000,000
June 30, 1951	27,809,000,000

2. International gold movements

U. S. Monetary Gold Stock

Dec. 31, 1939	\$17,644,000,000
Dec. 31, 1945	20,065,000,000
Dec. 31, 1949	24,427,000,000
Dec. 31, 1950	22,706,000,000
June 30, 1951	22,756,000,000

3. Change in size of national debt

United States Government Debt  
Direct and Fully Guaranteed  
(In millions)

June 30, 1940	\$ 48,496
Dec. 31, 1945	278,682
Dec. 31, 1949	257,160
Dec. 31, 1950	256,731
June 30, 1951	255,251

## 4. Shift of national debt into and out of banks

Ownership of U. S. Government  
Securities. Direct and Fully Guaranteed  
(In millions)

	June 30 <u>1940</u>	Dec. 31 <u>1945</u>	Dec. 31 <u>1950</u>	May 31 <u>1951<sup>p</sup></u>
<u>Held by banks</u>				
Commercial banks	\$16,100	\$ 90,800	\$ 61,800	\$ 57,900
Mutual Savings banks	3,100	10,700	10,900	10,300
Federal Reserve banks	2,466	24,262	20,778	22,509
<u>Held by non-bank investors</u>				
Individuals	10,100	63,700	66,700	65,600
Insurance companies	6,500	24,200	19,000	17,600
Other corporations	2,100	22,000	19,900	21,800
State and local governments	400	6,500	7,800	8,000
U. S. Govt. agencies & trust funds	7,080	27,048	39,197	40,330
Miscellaneous investors	700	9,500	10,700	11,000
Total	\$48,496	\$278,682	\$256,731	\$255,122

## 5. Growth of other bank credit to finance inventories, receivables, other consumer credit and plant expansion.

Consumer Credit Outstanding  
(In millions)

	Dec. 31 <u>1939</u>	Dec. 31 <u>1945</u>	Dec. 31 <u>1949</u>	Dec. 31 <u>1950</u>	June 30 <u>1951</u>
<u>Instalment credit</u>					
Automobile sale	\$ 1,267	\$ 227	\$ 3,144	\$ 4,126	\$ 4,041
Other sale	1,525	715	3,096	3,778	3,182
Loans	1,632	1,422	4,650	5,555	5,702
<u>Single payment loans</u>					
Charge accounts	530	510	1,018	1,332	1,395
Service credit	1,544	1,981	3,909	4,239	3,812
Total	533	772	992	1,067	1,092
Total	\$ 7,031	\$ 5,627	\$16,809	\$20,097	\$19,224

## 6. More rapid turnover of deposits, making more efficient use of deposits and reducing need for bank loans.

Annual Rate of Turnover of Demand Deposits,  
Except Interbank and Government

	<u>1939</u>	<u>1945</u>	<u>1949</u>	<u>1950</u>	June <u>1951</u> <sup>2/</sup>
New York City	21.0	24.2	28.2	31.4	33.1
Other leading cities <sup>1/</sup>	19.4	16.1	18.7	20.3	22.0

<sup>1/</sup> Weekly reporting member bank series  
<sup>2/</sup> Adjusted for seasonal variation  
<sup>p</sup> Preliminary

VII. Factors affecting deposit trend in any locality

1. Factors tending to hold deposit level high

- a. Personal debts low
- b. Cash and bond holdings of individuals high
- c. Income to producers of the better foods may stay high if national income is up
- d. U. S. purchases for foreign relief
- e. Federal payments for war materials, etc.
- f. Veterans' payments
- g. Local credit expansion - building, etc.
- h. Expanding local trade and business can help to hold money at home

2. Factors tending to decrease deposits

- a. Decline in farm product prices
- b. Poor crops
- c. Closing of war plants
- d. Consumer purchase of needed durable goods
- e. Travel
- f. Investment or speculation
  - in - stocks and bonds
  - real estate