PRESS RELEASE

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DOLLAR ($) DESIGN

by

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Member, Board of Governors of the Federal Reserve System,

before the

Chicago Association of Commerce and Industry
and the
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1958 Honor Awards Program

For Outstanding Architectural Achievements

in Metropolitan Chicago

Morrison Hotel
Chicago, Illinois

Thursday, 12:00 Noon
Central Standard Time
April 10, 1958.

DOLLAR ($) DESIGN

1. The strength of our dollar is vital to our economic growth.

2. Our dollar is strong when its purchasing power remains stable -- as stable as possible.

3. As Chicago has grown materially, spiritually, and culturally, so has our country grown.

4. The high spots of Chicago resemble the high spots of our nation.

5. The financial structure had to be revised so that the dollar would retain its strength and thus aid the economic growth of our country.

6. It is the purpose of central banking to add to or take away from the supply of the dollar as required by the economy.

7. When the economy is on the downside, more dollars must be provided readily.

8. As the economy is on the inflationary side, restraint must be administered in the volume of dollars made available to the economy.

9. During 1955, 1956, and a large portion of 1957, restraint was administered. Interest rates, as a result, went up because of the demand for the dollar and because the Federal Reserve did not supply the dollars that were in demand.

10. The record of Federal Reserve actions since mid-October may be summarized as follows:

a. Open market operations were used, beginning in the second half of October, to add to reserves of the banking system. Securities were purchased during November and December in larger amounts and sold in January and February in amounts smaller than necessary to cover usual seasonal variations in demands for bank reserves and currency.

b. The Federal Reserve System has reduced the discount rate three times. It is now $2\frac{1}{4}$ per cent in all Districts, as compared with the $3\frac{1}{2}$ per cent rate set last summer after the prime loan rate of large commercial banks had been pushed upward by loan demands to $4\frac{1}{2}$ per cent.

c. Reserve requirements for demand deposits have been reduced by 1 per cent, in two stages around March 1 and April 1, thus releasing to member banks reserves of $1,000 million.

By these various actions the availability of reserves was increased, and the System provided sufficient reserves in relation to the demands for bank credit and currency to permit member banks to reduce rapidly their borrowings at the Reserve Banks. The level of these borrowings, which averaged about $1 billion in the third quarter of the year, by mid-January was below half a billion. They were further reduced in January and February to a negligible level of less than $100 million. Excess reserves of member banks continued close to half a billion dollars.

What has been the impact of these changes? While business activity has been slipping into a deepening recession, bank credit has generally been expanding and new security issues by business corporations, by State and local governments, and by the Federal Government and its agencies have continued at a high level. These contrasting tendencies are attributable to the generous supply of bank reserves. Even though business borrowing from commercial banks has been

reduced sharply, these banks have expanded other types of credit by amounts that exceeded the business loan liquidation and have simultaneously reduced their borrowings at the Reserve Banks to a negligible volume. A true understanding of what has happened can be secured only if the usual seasonal movements are taken into account. For example, total deposits at banks, including time deposits, have increased during a period when they usually decline.

Not to be confused by the large seasonal movements at year-end, it is necessary to appraise the net effect of the shift in monetary policy by comparing the current situation with late November. From November 27, 1957 to March 12, 1958, banks in leading cities <u>increased</u> their total loans and investments (adjusted) by about $3.3 billion, whereas, during the comparable period of the previous year, this total had actually <u>decreased</u> by over $500 million. This year commercial loans and consumer loans decreased about $1½ billion as compared with a year ago increase of $350 billion dollars. But holdings of securities and loans on securities increased by nearly $5 billion this year as compared with a year ago decrease of over $½ billion. Assuming that last year's movements represented a normal seasonal pattern, it may be said that, between the end of November and mid-March, total loans and investments, after adjustment for seasonal variations, have increased by nearly $4 billion.

Time deposits at city banks in the same period showed a spectacular $2½ billion increase, which is over twice the dramatic expansion of the same period a year ago that was stimulated by the

raising of interest rates paid on these deposits. Demand deposits of business and individuals have changed by close to the usual seasonal amount, while U. S. Government deposits have not decreased as they did in the same period a year ago. Since the growth in deposits has taken place largely in time accounts rather than in demand accounts, the effect on required reserves at all member banks has been negligible; a year ago, required reserves declined $\$\frac{1}{2}$ billion, and two years ago $\$\frac{1}{4}$ billion. The reduction in reserve requirements released $\$\frac{1}{2}$ billion of reserves by March 12 this year and another $\$\frac{1}{2}$ billion later. Banks have obtained funds from the usual seasonal return flow of currency and these additions to the reserve supply have not been offset by open market operations by the Federal Reserve to the same extent as in other years. And so, free reserves this year increased by about $800 million, whereas a year ago there was a decline of $400 million.

These facts would seem to show that commercial banks have been supplied with ample reserves, which they have used not only to get out of debt but to expand credit contrary to the usual seasonal pattern. Despite the liquidation of business loans, banks have found other uses for funds by buying securities and making loans on securities. One result of this marked liberalization of credit has been the sharp decline in interest rates. The rate on Treasury bills, which responds rather sensitively to the changes in the supply of free reserves, has now returned to the average prevailing early in 1955. Rates on bankers acceptances and commercial paper are also at their lowest level since 1955. Long-term rates, less sensitive, also

declined but less sharply, because of the continued large volume of new security flotations. Mortgage interest rates have been coming down.

In summary, it may be observed that the central banking system has supplied reserves liberally since the time when indicators, reflecting all types and aspects of business, confirmed the fact that the bulk of business activity had slipped off the plateau characterized by rolling adjustment and was trending downward into recession.