MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 9, 1920

TO Governor Strong

SUBJECT:

FROM Mr. Carl Snyder

The article "Business Men on Money" may amuse you; and I should also like to draw attention to Prof. Edgeworth's review of Prof. Cassel's new work.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 26, 1920.

TO Mr. Jay

SUBJECT: The Rediscount Rate

FROM Mr. Snyder

There seem to me at least some reasons why it would be advisable to consider lowering the bank rate.

(1) It would probably take two months of discussion to bring this about.

(2) The fall in the big basic commodities within the last five or six weeks has reached almost panic proportions--on our chart, 26 per cent. from the peak in May to last Saturday.

This is confirmed by Bradstreet's, whose index had fallen 21 per cent. to October 1.

(3) This fall in prices and the check to business is largely ascribed to the Federal Reserve policy, and there has been savage criticism. The Federal Reserve System is on serious trial for the first time, and it might be wise and politic to temper the wind.

(4) The influence of the Federal bank rate is, under the present law, almost purely sentimental, and under this law the banks and Board have no real control of money rates, such as does the Bank of England. Lowering the bank rate would not of itself tend to expand credits further.

A bank which can get 8 per cent. on gilt edge bonds and other collateral is going to do all the expanding on a 7 per cent. Federal bank rate that it deems wise and safe. This would not be stimulated by a 6 per cent. bank rate.

(5) Such action by the Federal banks would take the edge off of criticism, give the country a feeling that the banks and the Board regarded conditions as sound, and tend to check the present collapse in the markets, which is quite as inimical to the peace and prosperity of the country as the wild inflation of last year.

(6) As the Federal banks did practically nothing to check last year's inflation until it was too late, it might be argued that it has no business now to throw all the weight of its influence towards a too drastic deflation.

(7) The present prospect is for intense business stagnation this winter, a severe contraction in bank credits, and quite possibly money a drug in the market next April. This would inevitably mean greater unemployment than has been seen in this country this generation.

(8) The present fall in prices has probably occasioned greater losses than any panic we have ever had. The situation now is really a critical one and might easily run into an actual crisis. Which is precisely what the Federal Reserve System was designed to prevent.

(9) As this country is in the soundest financial condition of any and as a severe crisis here would probably precipitate a world crisis, it is probable that our recovery would be quicker than any other nation's. If there was a marked contraction of loans and a great redundancy of bank credits, and very cheap money, this would almost inevitably start another wave of speculation and corresponding

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE

TO Mr. Jay--2

SUBJECT:

FROM

inflation; and if the Federal system should then step in to endeavor to check it, there would be a great outcry that its policy would "precipitate another panic," "throttle prosperity," etc., etc.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 1, 1920.

TO Mr. Jay

SUBJECT: BANK RATE POLICY

FROM Mr. Snyder

(1) For the first time in a year and a half, loans on commercial paper in the Reporting Member Banks of the System, in the last month have shown a real if very slight decline. It amounted for the month to about 1½ per cent. Part of this decline is seasonal and normal. But it is not associated, as last year, with a marked contraction in speculation.

Along with this decline has come a distinct, if slight, easing in the money market, and at least in the total of credit demands. This, also, is in part seasonal, but in part due to the approaching contraction in business.

(2) Along with all this has gone the greatest decline in prices the country has ever known. Bradstreet's and this bank's index of the 12 big basic commodities showed, on November 1, nearly the same decline from the peak, about 25 per cent. On last Saturday this bank's index has shown a further decline to more than 36 per cent. from the peak.

The decline, alike on Bradstreet's and on the Bureau of Labor index, in October, was the heaviest ever recorded on either of these indexes (Bradstreet's runs from 1892, monthly). The indications are that the fall in November was still heavier than in October.

This decline appears to be nearly twice as great as anything known before in peace times. The nearest comparison was the swift drop in the first six months of 1865, just before the close of the war, with an equally swift recovery in the succeeding six months. The drop of 36 per cent. now compares with about 9 per cent. in 1907, about 11 per cent. in 1892, something like 10 to 15 per cent. in 1873, and around 20 per cent., possibly, in 1857. Prior to 1893, only quarterly index figures are available.

This great decline, as always, has been accompanied by severe prostration in many lines of industry, and wide unemployment.

This decline was preceded by undoubtedly the most remarkable rise in prices ever known in peace times, and exceeded in only one brief period of the war (1916).

(3) Now, regarding this remarkable rise and unprecedented fall, two things in especial are to be said:

(a) So far as I know, there was almost no one to predict, almost no one who had any idea of, the probable extent of this rise, or the subsequent fall.

(b) Both the rise and the fall took place with practically no change in the momentum of production. The actual volume of goods produced, exchanged and consumed in the United States between the years 1916 and 1920 has not, so far as the available statistics show, very much differed one year from another.

This I think we have firmly established by our investigations.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 1, 1920

TO Mr. Jay

SUBJECT: BANK RATE POLICY--Continued

FROM Mr. Snyder

(c) It is, I believe, a mistake to suppose that the rise in prices was materially influenced by our foreign trade.

Although the actual volume or quantity of goods (in tons, bushels and bales) shipped abroad in the fiscal year ending July 1, 1919, was slightly above the preceding fiscal year of 1917-18, it was very considerably below the high level of 1916-17.

In the single month of July, 1919, our exports were enormous, but following that point up to the present time the trend has been downward, and for the first ten months of the present year was about 13 per cent. below the first ten months of 1919.

There was an unusual European demand for certain of our goods, but this affected only a minor part of our total exports. This demand from Europe was not sufficiently large either to create, or sustain, any unusual rise in prices in this country.

(4) It is generally reckoned that, on the average, something like five to six months of the country's total product of goods is always in transit from the producer to the consumer. The total income of the country for 1919, on the basis of that year's prices, has been reckoned as high as 70 billion dollars. These estimates are admittedly only approximations, but if they were anywhere near the fact, the value of this year's product, of this year's actual production of goods, on this year's level of prices, might easily exceed 50 or 60 billions of dollars. Something like one-half of this, i.e., five or six months' product, would be on the order of 25 to 30 billions. These goods have been produced on the basis of this year's prices, wages and costs.

(It is interesting to note that the present volume of commercial loans outstanding in the United States is now close to 28 billions.)

(5) If the price decline from the levels at which these goods were produced should, through the next six months or more, average 25 per cent., this would mean a loss to the producers, jobbers and retailers of possibly 6 or 7 billions of dollars. It is a very large sum, and presents a situation which apparently the country has never had to face before in such aggravated form. It scarcely seems possible that it can fail to produce a very serious business disturbance.

It is to be noted, however, that the purchasing power which, in the mind of the writer, was most patently responsible for the great rise in prices last year, that is, the huge extension of bank credits, still potentially exists. The flow of goods, now temporarily checked, will go on, and in due course what surplus exists will be consumed. Our investigations have shown that the rate of increase in the nation's production from year to year has varied but little in the last 50 years, through the wildest of our panics, booms, and likewise through the great war. Prices change widely but the actual volume or quantity of goods produced does not. The increase is on the order of 4.3 per cent. per annum.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 1, 1920.

TO Mr. Jay

SUBJECT: BANK RATE POLICY--Continued

FROM Mr. Snyder

Our chart of production shows that in 1916 and 1917 there was a considerable swell out above this normal line of growth, but there has been no subsequent increase, so that this year's production, for example, is very close to the normal line.

(6) Unless, therefore, a great European crisis should supervene, which would seriously disrupt the world's trade and occasion great losses to this country, there seems no reason why, when the normal flow of goods is reestablished, there should not be a relatively quick recovery in price level. The alternative to this appears to be as great business prostration as this country has ever known.

If this does not occur, then there seems likely to be a rapid rebound in prices, which may be all the more pronounced from the unprecedented violence of the present fall. In other words, supposing that the present depression does not much outlast a year from now, then the middle or latter part of 1922 may see as great an outcry against the high cost of living as we have had this year.

I think that everyone would agree that this is a consummation to be avoided if possible.

(7) Now, if the foregoing argument is soundly based,

--If in these two years of the most violent price changes ever known, the volume of production and the flow of goods has not substantially varied; and

--If these changes have not been sensibly affected by our foreign trade; and

--If there seems but one chiefly responsible factor, viz., the command of credit and the attendant distribution of purchasing power among the people,

--Then it ought to be within the purview and powers of the Federal Reserve Board and Banks so to formulate a rate policy as to prevent a return of these excessive price fluctuations.

If this be true, the formulation of that policy ought to be made now, and announced. It might, perhaps, begin with the reduction of the present rate by perhaps 1 per cent., as a notice to the public that the credit strain has passed, that liquidation is in process, and that money will soon be plentiful at reasonable rates.

Such an announcement should, with the present solvency of the Federal Reserve System banks, at least go very far towards checking an undue apprehension among the people and do much to restore confidence that in due course prosperous times will return.

(8) But if this were done, then it ought very distinctly be announced that the 6 per cent. rate would thereafter hold, even though money rates should decline very much below this point, which would mean, of course, that eventually the borrowing banks would pay off the larger part of their loans at the Federal Reserve Banks.

FEDERAL RESERVE BANK
OF NEW YORK.

OFFICE CORRESPONDENCE

DATE December 1, 1920

TO Mr. Jay

SUBJECT: BANK RATE POLICY--Continued

FROM Mr. Snyder

But such a formulation ought to go much further. We shall probably see in the next six months or a year a very marked contraction of the currency and possibly also, to a less extent, of credit or deposit currency.

If the general decline in prices should average no more than about 20 per cent., and the contraction in the actual volume of production and trade possibly 8 to 10 per cent., this would mean apparently something like 30 per cent. lessened need for currency. This would be accentuated by the general tendency of people to carry less currency in their pockets in slack times than in flush times.

This would suggest a possible contraction of the currency by as much as a billion and a half, all of which would fall upon the Federal reserve notes. If the contraction in bank loans and deposits should amount to as much as 10 per cent., this would be on the order of three billions.

This contraction, even though it followed the great fall in prices, would inevitably arouse great criticism and outcry at the Federal Reserve System. A policy which would to some extent forestall this criticism, i.e., a reduction of the bank rate, might be politically wise.

(9) But in any event, whether the rate be reduced or not, in the course of a year confidence should begin to return, as it usually does; the banks will begin again to expand, business will be prosperous, and from the extremely low level, relatively, of prices, profits may again be large.

It does not now seem probable that we shall experience in the next year or two any heavy outflow of gold. If this be the case, we shall have, almost inevitably, another business boom, another extended rise in prices, and another collapse.

It seems to the writer that all this could be forestalled, and in large part prevented, by a definite announcement by the Federal reserve banks that they would follow rigidly a definite policy and that the rate of rediscount would be fixed by two factors along fairly definite lines.

(a) First, that, as Mr. Case has suggested, a given range of the reserve ratio, e.g., 70 per cent., should mean, say, a 4½ per cent. discount rate; a 60 per cent. ratio a 5 per cent. rate; and so on, the rate increasing more rapidly than the ratio falls.

(b) Second, that as the second determining factor, if the general level of prices (say the Bureau of Labor index) rises by as much as 10 per cent., the rediscount rate should then rise by 1 per cent. or more, as should be deemed wise, thus fixing definitely in the public mind the relation between the volume of bank loans and the general price level, giving notice, too, that the banks and the Board would do their utmost to check another violent rise by increasing the rediscount rate as rapidly as was necessary to effect this check.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 1, 1920.

TO Mr. Jay

SUBJECT: BANK RATE POLICY--Concluded

FROM Mr. Snyder

(10) It is here clearly recognized that the effect of the rediscount rate is very largely sentimental, and unless it were carried to an extreme point might not mean any very great check upon loan expansion.

So long as the Member Banks can borrow their reserves, by rediscounting, the difference of 1, 2, or even 3 per cent. which might be created, on the 7 to 13 per cent. of their deposits, would be a very small matter to the banks' profits, compared with booming business and rapidly rising loan rates. It is the writer's belief, however, that the effect of such a policy would still, with the recollection of the present tremendous decline, be very great.

As a practical measure of "stabilizing the dollar," such a policy might possibly be of almost as much effect as, for example, the plan of varying the weight of gold in the dollar.

[illegible]

MISC 3

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

Date January 26, 1921

To Governor Strong

From Mr. Carl Snyder

Subject: Two charts of Production and Prices

BA

JAN 27 1921

Attached to the two charts of Production and Prices, which were sent you and which you desired to send to England, is a brief word of exact description. I attach also a copy of the paper I gave at the meeting of the American Economic Association at Atlantic City, concerning this investigation, and endeavoring to set forth its meaning. X

I attach also another chart which sets forth more clearly the lack of any correspondence between the price level and the rate of production.

Returned Jan 27

Mr. Carl Snyder,

15 Nassau St.

AN INDEX OF NATIONAL PRODUCTION

In his comprehensive work on "Business Cycles," 1913, Mitchell pointed out as among the first requisites for a larger understanding, the need of an index of the physical volume of trade. An inquiry undertaken by the writer showed that a reliable index of the volume of trade was much more difficult of compilation than an index of production in the leading lines of industrial activity, including, of course, the farms. But the preparation of the latter revealed that an index of production is likewise probably the most accurate index of trade that we have. There is probably no great variation in trade aside from the variations in product. That is to say, what is produced is very largely consumed year by year; and there appears to be very rarely any accumulated surplus of moment.

Probably the best general index of trade that we had was the bank clearings outside of New York City. It had been supposed that these grew more rapidly than the general trade of the country, and also that they were very greatly affected by periods of intense speculative activity, like those of last year.

Prior to 1890, these clearings did grow very rapidly, owing to the rapid extension of the clearing house system, and the actual number of clearing houses. Subsequent to 1890 these clearings, corrected for price changes by dividing by the Bureau of Labor's index of commodity prices, show a fairly consistent growth at the average rate of close to 4 per cent. per annum. The preparation of an index of production revealed that the average annual increase in the product was practically the same. Periods of speculative activity do show a sensible variation between the two indices; but only for a brief time.

It is remarkable that, until the present year, there had been no serious effort to measure the total national product or its rate of growth over an extended period of years. This was the more regrettable, for it left the field wide open for the most conflicting views as to whether production in a given year was low or high, labor inefficient or the reverse, whether there was a scarcity of goods, and so on.

Prof. Kemmerer had made an excellent beginning in his "Money and Prices," and Prof. Fisher had attempted the same thing in the working out of his standard work on the purchasing power of money. Then, as so often happens, the problem was attacked anew this year, from somewhat different angles, by Dr. King, Dr. Stewart, Dr. Day, and the present speaker. A very substantial agreement appears between each of the investigations. Dr. King obtained weighted averages embracing 15 principal products; and these averages show a fairly steady rate of growth of about 3.4 per cent. per annum. Dr. Stewart's line shows about the same trend. Dr. Day had not yet combined his series into a single line. We took simple averages of his unadjusted indices for his three series, and obtained a slope of close to 3.5 per cent.

We worked out three different series, first one of 28 principal products running back 40 years; then one of 49 items running back 50 years; and finally one beginning with these 49 items and adding others as rapidly as they were available, so that for the last 20 years the average was above 70 and latterly the total number of items 87. Unweighted averages were taken of these, and, save in the earlier period from 1870 to 1890, there was no substantial difference between the three series. Taking the slope only from about 1890, the rate of increase on the first was 4.3 per cent.; on the second, 49 items, about 3.3 per cent.; and on the longest list about 4.2 per cent. per annum.

The problem of weighting is obviously a difficult one, and the method necessarily one of arbitrary choice. Happily, the number of items available is large enough so that, as Bowley, Mitchell and others have been at much pains to demonstrate in other fields, there was no very marked difference, save in minor details, between these and the weighted averages of King, Stewart and Day. In general all of these agreed in a slope, in the last 30 years, of around 3½ to 4 per cent.

Considering the amount of material available, its nature, and the considerable probability of error involved, it may now be said with confidence that this is approximately the annual rate of growth within the last generation. It will be noted that this rate is considerably lower than that estimated by Prof. Fisher, and somewhat lower than that of Prof. Kemmerer. This also disposes of the idea that the ton mileage of the railroads is a good index of production. For the last 40 years the freight traffic of the railroads, expressed in ton miles, has shown a remarkably even growth at the rate of about 6.2 per cent., or 50 per cent. greater than any probable rate of production growth. This simply expresses the fact that, as the urban population grows and production is concentrated more in large centers, the greater must be the haul of food, fuels and materials back and forth to feed and supply this population and their specialized industries.

The fact which stands out, of course, in all these investigations, is the amazingly even character of this production growth, and how very slight is the variation in the flow of goods from year to year throughout periods of wide prosperity or deep depression, how slightly it was affected by the war, and how little relationship it often bore to the prevailing spirit or traditional idea of any given time. Thus, the period after the great panic of '73 is usually referred to as one of the deepest depressions the country ever knew, and yet, beginning a year or two after that panic there appears to have been a very marked expansion, at a rate seldom equalled since. We have here a transfer of the usual delusion that profits and prices are a measure of the real prosperity of a nation.

In the same way we see that there was, contrary to almost universal impression, no unusually rapid expansion in the late war. The peak appears to have been reached in 1916 or 1917--there was seemingly little difference in the total of the two years. And in the same way, contrary to almost universal expectation, there has been no great diminution since the war closed. So we had no huge surplus of goods to dispose of. On the contrary, there never seemed a greater scarcity than last winter and last spring; and never such an extraordinary rise in prices in peace times.

So far as we can judge, there has been, between the last five years, no very great difference in the total of the annual product; and the considerable increase in the rate in 1916-'17 has been compensated, apparently, by a somewhat lower rate since. From this I think we can say pretty surely that there is no huge overgrowth of manufacturing or productive capacity in this country, save perhaps in a few lines too obvious to need mention. So there does not seem any cause for apprehension that the present depression through which we are passing will be of any longer duration than those of the past; and in the minds of many careful observers the forces at work are such as to make this depression, for the United States perhaps, briefer and lighter than for any of the other great commercial nations.

In the same way it is perfectly evident that between the total of the national product and the general price level there is only the slightest discoverable relation, and this only of the briefest duration. Periods of the most rapid growth in production, as in 1874-1880, have likewise been periods of rapidly declining prices; and vice versa.

Hardly greater foundation has the traditional belief that "iron is the barometer of business." It is no doubt true that the volume of new construction makes up the larger part of that which we call the business cycle, that is, the variation between periods of expansion and relative quiescence. And iron and steel are, of course, a most important element in this new construction. It is further probably true that when the steel trade is good, other business is brisk and profits satisfactory. But just as the variation in the mercury tube in extreme depression and a "high barometer," when everyone feels buoyed up, is normally on the order of less than 5 per cent., so we may say that the difference in national product from one period to another is probably not much more--8 or 10 per cent. at the outside, as measured by years.

The difference produced by extreme depression and prosperity in the iron trade is fairly set forth in the estimates of manufacturing products which have been given us by Dr. Stewart and by Dr. Day. For the rest, it is evident that the iron trade lags rather than leads the general expansion, and is one of the last of the industries to feel the turn of the tide, as was so notably evident this year.

But if the problem of measurement of the national product has now been disposed of, there still remains yet another, and that is the measurement of the current product; and for practical affairs this is of far greater importance. The variations in the business cycle, as Prof. Mitchell has so clearly set forth, lie perhaps as much as anything in a dislocation between the even pace in the different lines of industry--too rapid expansion in one direction, too little in another, so as to disturb the normal equilibrium. The whole of the national product does not greatly vary, but that of the several industries may vary quite widely. Now, in very large part, goods are exchanged for goods and services for services; and if there be over-expansion in this line or that, there comes inevitably overproduction in special lines, a period of crisis for these industries, unemployment, failures, and all the traditional phenomena of lack of balance.

This and little else is what is happening now. It is not because of any fall in our foreign trade, or because of over-extension of credits abroad, or the inefficiency of labor,or any of the nine and forty special reasons which are always urged at such times. Our foreign trade has been good, but it has not been enormous. Its rate of growth over the last ten years was not deeply affected by the war. It is not now due, it does not seem to me, for any violent or long-continued collapse. And if national production has been at the peak of its history in the last five years, it is very evident that the idea of the inefficiency of labor is very largely a subconscious impression, or what Prof. Ogburn would probably call a wish thought.

What is troubling us is simply industry out of balance. In certain particular and very obvious lines we have been going a little too fast. Now, if we wish to get rid of these periods, or cycles, of industrial disturbance, we ought to know that the several industries are marching in step, in other words, what is the current rate of production in the several lines. This is one question that has especially engaged my department this year. We have so far been able to obtain satisfactory indices in about 25 of the major industries of the country, including perhaps 60 or 70 per cent. of the raw products and basic materials, and in some of the more fundamental manufactures, as the production of pig iron and steel, refined sugar, refined copper, and so on.

In the course of a few months we hope to have at least ten or a dozen more, and with these we shall have, I think, a very clear and accurate picture of the industrial flow from month to month. By reducing each of the industries to a common denominator, we shall know by means of index figures exactly whether we are producing very much more pig iron or copper or sugar, or importing much more rubber or silk or wool than the normal need. It was very striking, when we first obtained these indices, to note how clear was the overproduction in certain lines and the very large certainty that there would be inevitably a collapse in these special industries. In fact, from the relative height of the indices you could pretty well pick them off in the order in which the decline would and did come.

The preparation of these indices was obviously a much more difficult matter than the annual product. For here we have to deal with a wide seasonal variation. In many lines, as for example the milling of flour, the slaughter of meat, the production of sugar, cement, and, in fact, a majority of the industries, the variation may be very wide, amounting to as high as 30 or 40 per cent. above or below the average for the 12 months of the year.

To work out this seasonal index it was needful to have the figures of production by months for a series of years, ten or twelve at least, and then to determine by examination of the scatter as to whether this seasonal was fairly even and whether a given industry tended to run fairly true to form. In most of the cases a fairly satisfactory seasonal was obtainable, in some less so. But now that we have some 25 or 30 of the major industries, the individual variations are ironed out so that, in the summation of the averages, we have a fairly good picture of the nation's monthly product. And as one industry after another is added to the list, the picture will, of course, become more complete and satisfactory.

A summary of these monthly indices in 1920, follows:

PRODUCTION, PRICES, LOANS AND CLEARINGS IN THE U. S., 1870-1920

CHART I.

(1) Prices,--Department of Labor index of wholesale commodities, in annual averages, the average for 1913 taken as a base of 100 and other prices computed in percentages of this base.

(2) Production index,--The annual average of 87 commodities and other indices of production, in each case the average of 1910-'14, inclusive, taken as a base of 100 and the different years computed in percentages of this base.

(3) Loans and discounts are the total loans and discounts of all the banks of the United States, as reported by the Comptroller of the Currency, plotted directly on the chart, in billions, from the earliest date for which comparable figures are available.

(4) Bank clearings are the clearings of all the banks outside of New York City, corrected for variations in the price level by dividing the figures, as reported by the annual averages of the Bureau of Labor's index of wholesale commodities.

PRODUCTION AND TRADE IN THE U:S., 1870-1920

CHART II

(1) The same line as the fourth line of Chart I.

(2) Prof. E. E. Day's index figures of production, as reported in the Harvard Review of Economic Statistics, 1920-'21

(3) Same, by Prof. W. W. Stewart, of Amherst, to be reported in the American Economic Review, 1921

(4) Same, by Prof. W. I. King, reported in Bankers Statistics Service, 1920.

(5), (6) and (7) Our production indices of three different series: first, of 49 items covering 50 years; second, of 28 items covering 40 years; and third, the series of 49 items enlarged as rapidly as the figures became available, to a total of 87 varieties in all.

(8) Population, plotted directly after division by four, to permit of clear placing on the chart.

CHART III

Course of Commodity Prices--Should explain itself.

MISC. 4. 1-120

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Jan. 28, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Carl Snyder

This was very hurriedly done, as I am leaving for a few days' vacation; and, as you will find, is repetitious. But I did think it worth while to go pretty carefully into this very interesting question.

The memo. on the jump in our silver holdings will be sent you on Monday by Mr. Bellah. It was delayed by proof reading on the <u>Monthly Review</u>.

Charts sent: 54.1 [illegible] 1911-20
Relative Volume of U.S. For. & Dom. Tr. from 1880
Movement of Com. Pr. thru War Period, Dif. Groups 1913-1920
73.1 [illegible] 1917-20
66 [illegible]

MISC. 4. 1-120 M-1-20

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MISC 3

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

Date January 28, 1921

To Governor Strong

Subject: THE RISE IN PRICES IN THE WAR

From Mr. Snyder

Your question is:

"Did the expansion in our bank credit and currency from the beginning of the war until the present time reflect the advances in the prices of goods brought about by the insistent demands beyond capacity to produce, or did high prices result from an over-expansion of credit caused by war borrowings, etc. In other words, is the high price level a cause or an effect?"

This is a subject about which argument will apparently be endless if we have no solid basis of fact upon which to build an opinion. As the matter seemed worth while, this department has made a number of studies in the last year which offer such a basis, and the results we have obtained have been confirmed by other investigators, as in the Harvard Bureau of Economic Research.

I. First as to periods. The main rise in prices in the war took place before our entry into the war, and after the war had closed. The index figures, as given by the Bureau of Labor Statistics (base of 1913 = 100) were as follows:

	July, 1914	100	April, 1917	172	Nov., 1918	206
	April, 1917	172	Nov., 1918	206	May, 1920 (peak)	272
Increase		72 per cent.		19.8 per cent.		32 per cent.

That is, in the period of "the withdrawal of more than four million men from industry," of "huge Government borrowings," etc., the rise in prices was relatively small.

II. We now have three sets of production indices covering the period, compiled from different points of view and employing weighted and unweighted, or rather equal-weighted averages. These were prepared respectively by Prof. Day of the Harvard Bureau, Prof. Stewart of Amherst, and by this department. These index figures, by calendar years, from 1912 to 1918 inclusive, compare as follows:

MISC 3

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

Date January 28, 1921

To Governor Strong

Subject: THE RISE IN PRICES IN THE WAR

From Mr. Snyder

Calendar Years	Day	Stewart	F. R. Bank, N. Y.
1912	357	212	50.96
1913	357	202	52.64
1914	339	202	51.10
1915	371	224	54.92
1916	407	234	62.26
1917	418	248	65.69
1918	418	250	62.74

The percentage of increase from the average of the three years of 1912-1914 to 1917 compared, on the three indices, as follows:

	Day	Stewart	F. R. Bank, N. Y.
Average 1912-1914	352	205	51.57
1917	418	248	65.69
Increase	19 per cent.	21 per cent.	27 per cent.

III. We also have careful computations of the relative volume of our exports, i.e., the actual quantity of goods measured in tons, bushels and bales, for the same period. These were made respectively by Prof. Berridge of the Harvard Bureau, using the actual computations of the U. S. Shipping Board; and by a different method by this department. The index figures of these two computations for the period in question compare as follows:

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FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

Date January 28, 1921

To Governor Strong

Subject: THE RISE IN PRICES IN THE WAR

From Mr. Snyder

Base of 1911 = 100

Fiscal Years	Berridge (U. S.S.B.)	F. R. Bank
1912	108.8	101.2
1913	120.0	114.4
1914	115.5	109.9
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The percentage of increase from the fiscal year of 1913-'14, which was slightly below the fiscal year of 1912-'13, compares as follows:

	Berridge	F. R. Bank
1913-'14	115.5	109.9
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Increase	65.5 per cent.	76.8 per cent.

IV. The investigations of this department have established that, the element of intense speculative activity eliminated, bank clearings outside of New York, corrected for price changes, are a fairly good index of production. We therefore thought of obtaining the ratio of exports to the actual volume of production and trade, by dividing the export values, as reported, by outside bank clearings, uncorrected. This method presupposed that bank clearings and export values would be equally affected by the rise in prices. If export prices in the war rose more rapidly than the general average of prices which affected bank clearings, then the ratios would naturally be higher. This same ratio was also computed from a comparison of all the available items. These two computations, from a low point

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	Ratio of Outside Bank Clearings to Exports	Computed Ratio
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1916	5.3	6.52
1917	4.8	7.87
1918	3.9	6.34
1919	4.3	7.91
1920	3.9	8.40

V. The computed ratio, made by Mr. Gilbert King, in this department last summer, involved elaborate and detailed study of the actual percentages of some 100 of the principal commodities entering into our export trade, for which comparable figures of total production in this country could be obtained. These percentages were weighted according to their dollar value and an average of all taken. Where actual figures of quantities in tons, bushels and bales were not available, a large number of computations of the percentages as measured in dollars was taken and these included in the composite. The result of this investigation showed that the ratios of outside bank clearings to export values represented a real increase in the physical quantity of exports, and was a fair index thereof.

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As recorded above, King's figures showed a rise from an estimated 4.7 per cent. of exports to total national product in 1909 to about 8 per cent. in 1917.

VI. We have also made a careful analysis of the rise in average prices within the different groups reported by the Bureau of Labor Statistics. The chief and insistent demand occasioned by the European war was for food, and it might readily be supposed, therefore, that food prices would rise at a much different rate than the general average of all prices. The Bureau of Labor's index for the same months as reported above were as follows:

	Food Prices	All Prices
July, 1914	104	100
April, 1917	182	172
Increase	75 per cent.	72 per cent.
April, 1917	182	172
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Increase	13 per cent.	20 per cent.

Most of the above studies are graphically set forth in the charts attached.

VII. We are now in a position to make a statistical study of the problem. The facts may be summarized as follows:

(a) The great rise in prices, and practically all the rise in exports, took place before our entry into the war and the question, therefore, need not be clouded by any considerations as to "number of men in this country withdrawn from industry by the war," our war borrowings, labor efficiency, and a great number of other confusing matters.

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(b) The percentage of exports to total national product for the years from 1914 to 1917 did not apparently rise at a more rapid rate than in the preceding five years. In these preceding five years there was almost no rise in the general level of prices. If it was the export demand which caused the great rise of prices in the war, we should expect the same thing before the war.

(c) The rate of increase in the actual volume or quantity of exports as measured by our indices in, for example, the period from 1893 to 1898, was much more rapid than the rate of increase in the war from 1914 to 1918, as shown by either Mr. Berridge's index or our own. The rise in prices in this period was quite moderate as compared with the rise in the late war.

(d) If the increase in percentage of our products going abroad to the total national product rose only about 3 per cent. of the total, in the entire period from 1909 to 1918 and only about half of this took place in the war, then even if we allocate all of this increase to the war demands it would be on the order of less than 2 per cent. of our total national product.

VIII. All of the three indices of Day, Stewart and our own indicate that the increase of production from 1914 to 1917 was on the order of 20 to 25 per cent. We may, therefore, pose the problem in the following form:

(1) If the war increased the percentage of total product going abroad by only 1 or 2 per cent. of the whole, while in the same period production increased by 20 to 25 per cent.; and

(2) If the rise of food prices, and these are prices of grains and food taken at wholesale and not at retail, did not rise much more rapidly than the average of all commodities (more than 300 different

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commodities included), and

(3) If the rate of growth of our exports, in actual volume, was approximately the same in the five years before the war as in the years of the war, as shown by the attached chart; then the question is:

Does this trifling increase in the export demand occasioned by the war present an adequate explanation of the greatest rise in prices, as measured in gold, ever known in this or probably any other country since the making of prices began?

IX. As to the "bidding up of prices" in the war, the chief bidding up, and especially at the beginning, was, of course, in foods, and that meant principally wheat and meat. If, therefore, food prices rose at about the same rate as the average of all prices at wholesale in all the United States, does not this suggest that some greater cause was at work than the energetic efforts of the grain speculators?

X. Let us now turn to the other side of the problem and note this:

(1) The rise in prices in the United States did not notably begin before the fall of 1915, a full year and more after the outbreak of the war. In this period the "demand" was very great and our exports increased. Prices did not go up.

(2) In the six or eight months following the outbreak of the war there was a heavy export of gold from this country. It is at least notable that the rise in prices did not begin until this export of gold had been replaced by imports and a considerable surplus shown.

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From Mr. Snyder

Subject: THE RISE IN PRICES IN THE WAR

(3) Thereafter prices rose pretty steadily with the quantity of incoming gold.

Now, as to this it is to be said very simply that every dollar of "war demand" was equal to a dollar of home and ordinary demand, and no more. There was nothing magical about the war dollar.

On the other hand, every dollar of added gold meant eventually an increase of at least six or seven dollars in bank loans and bank deposits, and therefore of purchasing power.

Statistically, then, it may be said that the effect of an import of gold was, measured in dollars, six or seven times as potent a cause of increasing prices as each dollar of increased "demand."

XI. Now, as to this increased "demand":

It is shown by the production indices of Day, Stewart and this department, and by the index of volume of trade computed by this department, that the variation of production between lean years and flush years may be as high as 10 per cent. and possibly more. Prof. Parsons thinks not more. If we have correctly measured the increased European demand for our products before our entry into the war as not exceeding 2 or 3 per cent. of our total product, then this increased demand was far less than the normal variation between good times and bad.

The index of production and of volume of trade is here employed as an index of "demand" intentionally, for we have no other index, and in a broad sort of way the great part of our national product, possibly 90 per cent. or more, is on the average consumed in the year following its production.

Now, the variation of this normal demand between good times and bad does not occasion any considerable variation in prices. If over a long period we compare the indices of wholesale prices with the indices of production it will be found that there is very little relation between the two. Periods of rapidly falling prices have been periods of very rapidly rising production, as notably in the period of from about 1874 to 1880. And in turn, periods of very rapidly rising prices have shown no corresponding increase in the rate of production, save perhaps for isolated years.

We are driven to the clear conclusion that, contrary to the almost universal belief, rising prices do not very greatly increase the rate of production. Nor do falling prices very greatly depress this normal rate, and in general not at all.

Over a long period of years our national product increases at between 3½ and 4 per cent. per annum. This rate varies from year to year, but the variations do not correspond with the direction of rising or falling prices, save for very short periods, measured perhaps in months.

XII. In a broad sort of way, prices rise with the increase in bank loans, as is shown very strikingly by the comparison of prices and loans, both in this country and in England. If we take the average annual prices and plot these with the volume of bank loans at an intermediate point, as for example June 30 in each calendar year, the result is a parallelism that can scarcely be accidental. It is set forth in the accompanying chart.

XIII. The conclusion, therefore, would be apparently as follows:

The excess demand in this country, occasioned by the war, was not greater than the normal variation between good years and bad, and was probably far less, possibly

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not one-half so great. The war's demands, therefore, seems a totally inadequate explanation of the rise in prices.

In a rough sort of way and excluding years of extreme depression, the demand is always pretty close to 100 per cent. of the supply. That is only saying that, in a broad sort of way, goods are exchanged for goods and money is only the mechanism or vehicle of the exchange.

Practically the only way to increase prices is to increase purchasing power by an excessive addition to the volume of credit and currency. And in the war the expansion of bank credit and currency went hand in hand with the rise in prices.

There is almost no one to contend that high prices could have been financed without a corresponding increase in bank credits. Therefore, if there was no excessive demand it seems to follow that the increase in bank credits alone was responsible for the increase in prices.

If this conclusion seems extreme let us simply imagine what would have happened if we had had no Federal Reserve System to expand credits, and all of the gold received from abroad had been buried in the ground. The increased exchanges due to rising prices could, therefore, have taken place only in one of two ways: either by an increased velocity of bank credits or by a fall in the prices of other goods than those included in the war's especial demands.

We have as yet no accurate estimates of the increase in the bank credit velocity. Prof. Fisher's computations, as he himself observes, have been so far removed from their base as to become simply estimates. There is some reason to think that the increase in velocity in the war was not very great, only enough, perhaps, to account for the difference shown between the expansion of loans and the

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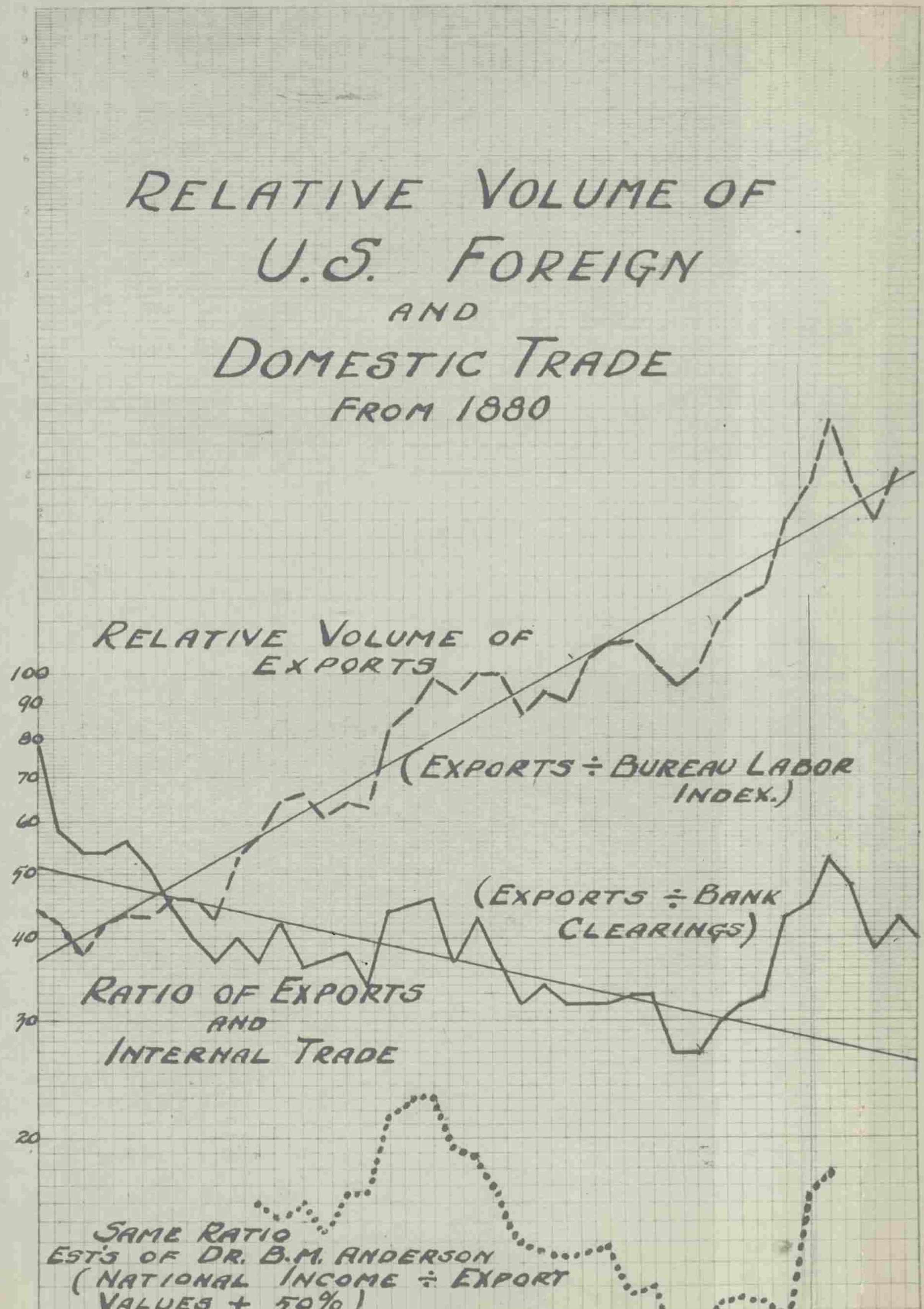
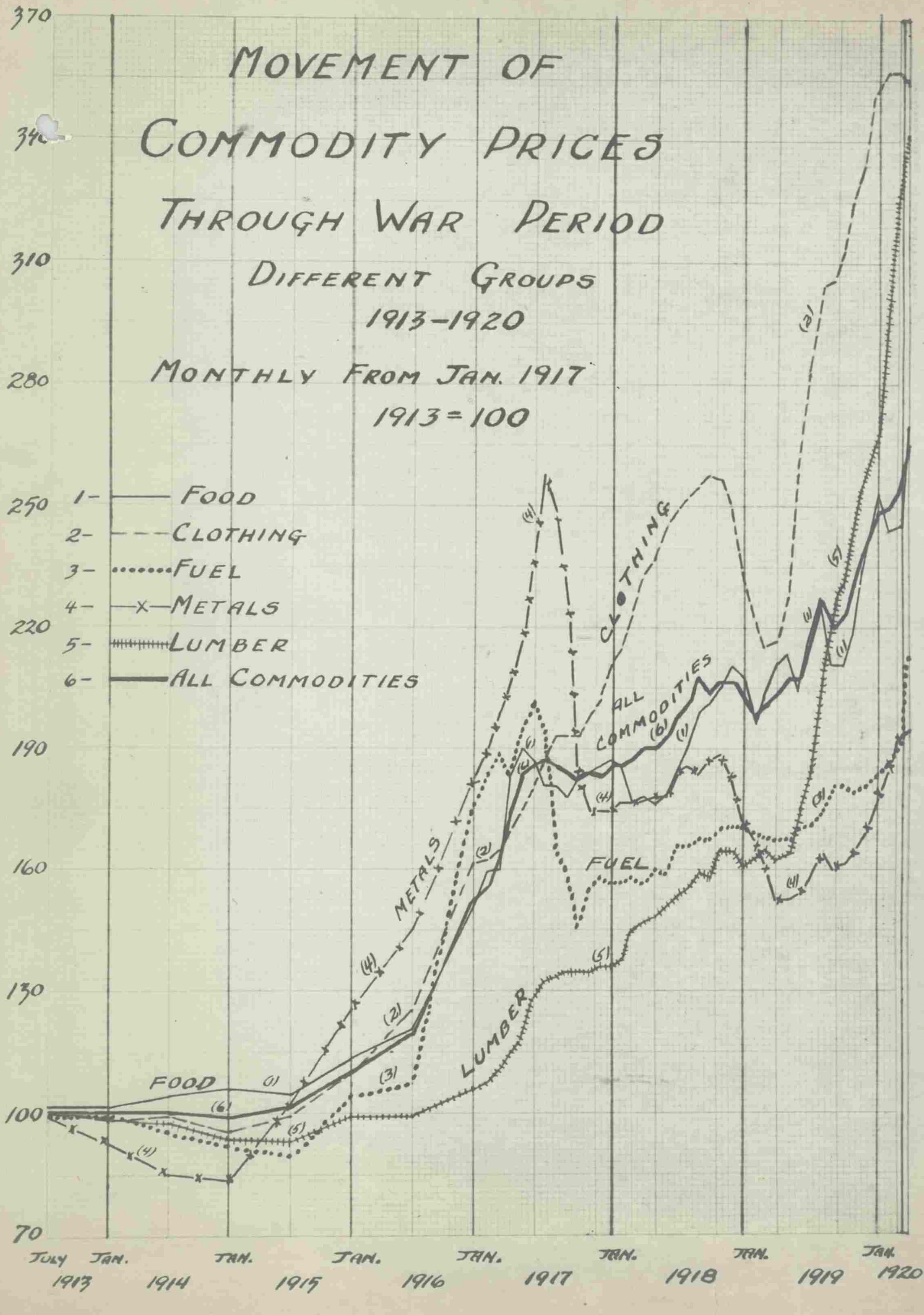
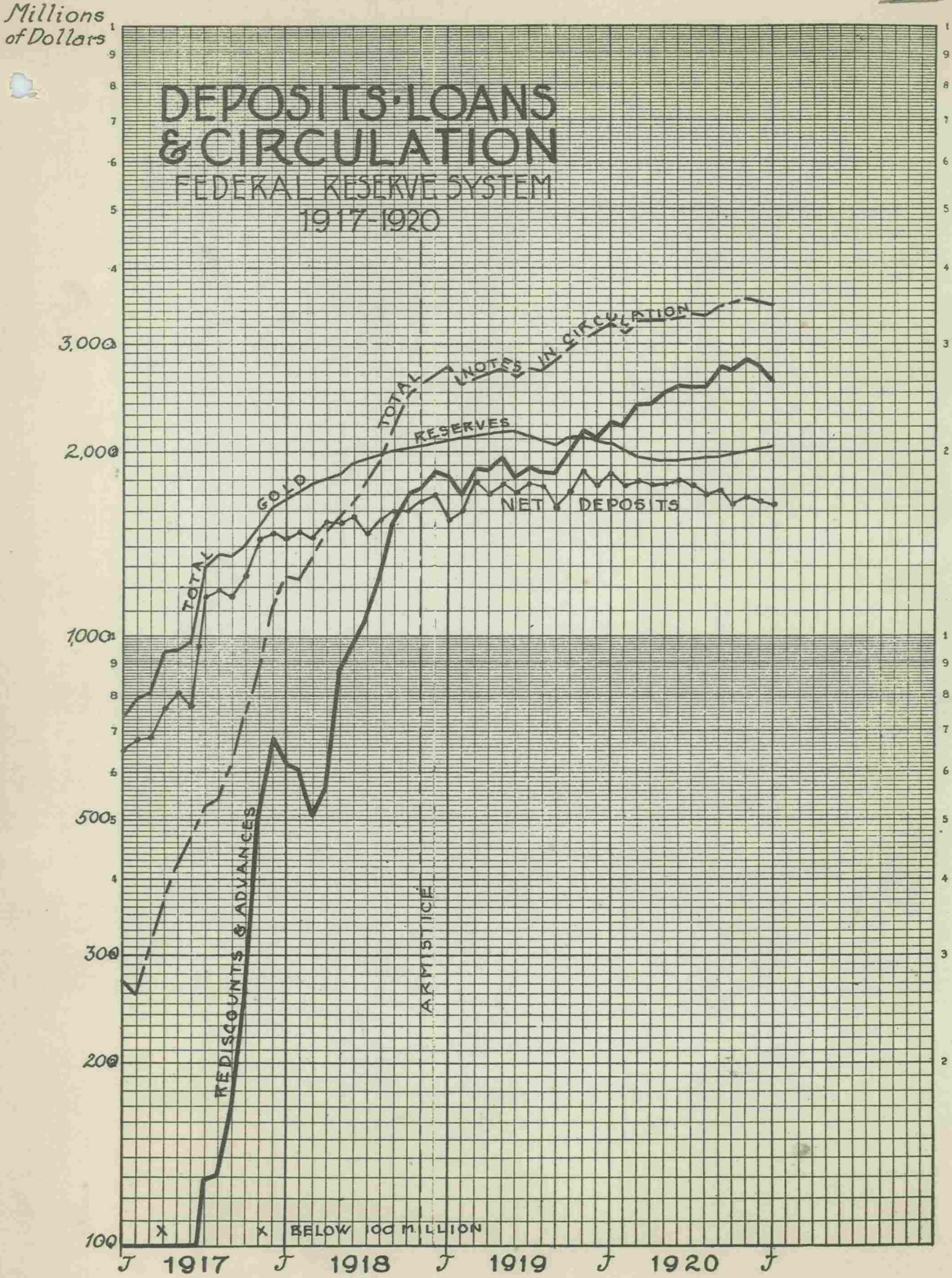
percentage rise in prices.

What apparently happened in the war was that the normal check to rising prices, which inheres in the check to exports, and the outflow of gold, was absent. Therefore, an excessive expansion of bank credits was free to work its full effect.


RELATIVE VOLUME OF
U.S. FOREIGN
AND
DOMESTIC TRADE
FROM 1880
RELATIVE VOLUME OF
EXPORTS
(EXPORTS ÷ BUREAU LABOR
INDEX.)
(EXPORTS ÷ BANK
CLEARINGS)
RATIO OF EXPORTS
AND
INTERNAL TRADE
SAME RATIO
EST'S OF DR. B.M. ANDERSON
(NATIONAL INCOME ÷ EXPORT
VALUES + 50%)
100
90
80
70
60
50
40
30
20
10
1880
'85
'90
'95
1900
'05
'10
'15
'20


MOVEMENT OF
COMMODITY PRICES
THROUGH WAR PERIOD
DIFFERENT GROUPS
1913-1920
MONTHLY FROM JAN. 1917
1913 = 100
1- FOOD
2- CLOTHING
3- FUEL
4- METALS
5- LUMBER
6- ALL COMMODITIES
370
340
310
280
250
220
190
160
130
100
70
JULY 1913
JAN. 1914
JAN. 1915
JAN. 1916
JAN. 1917
JAN. 1918
JAN. 1919
JAN. 1920
FOOD
METALS
CLOTHING
ALL COMMODITIES
FUEL
LUMBER

73.1
~~30.1~~

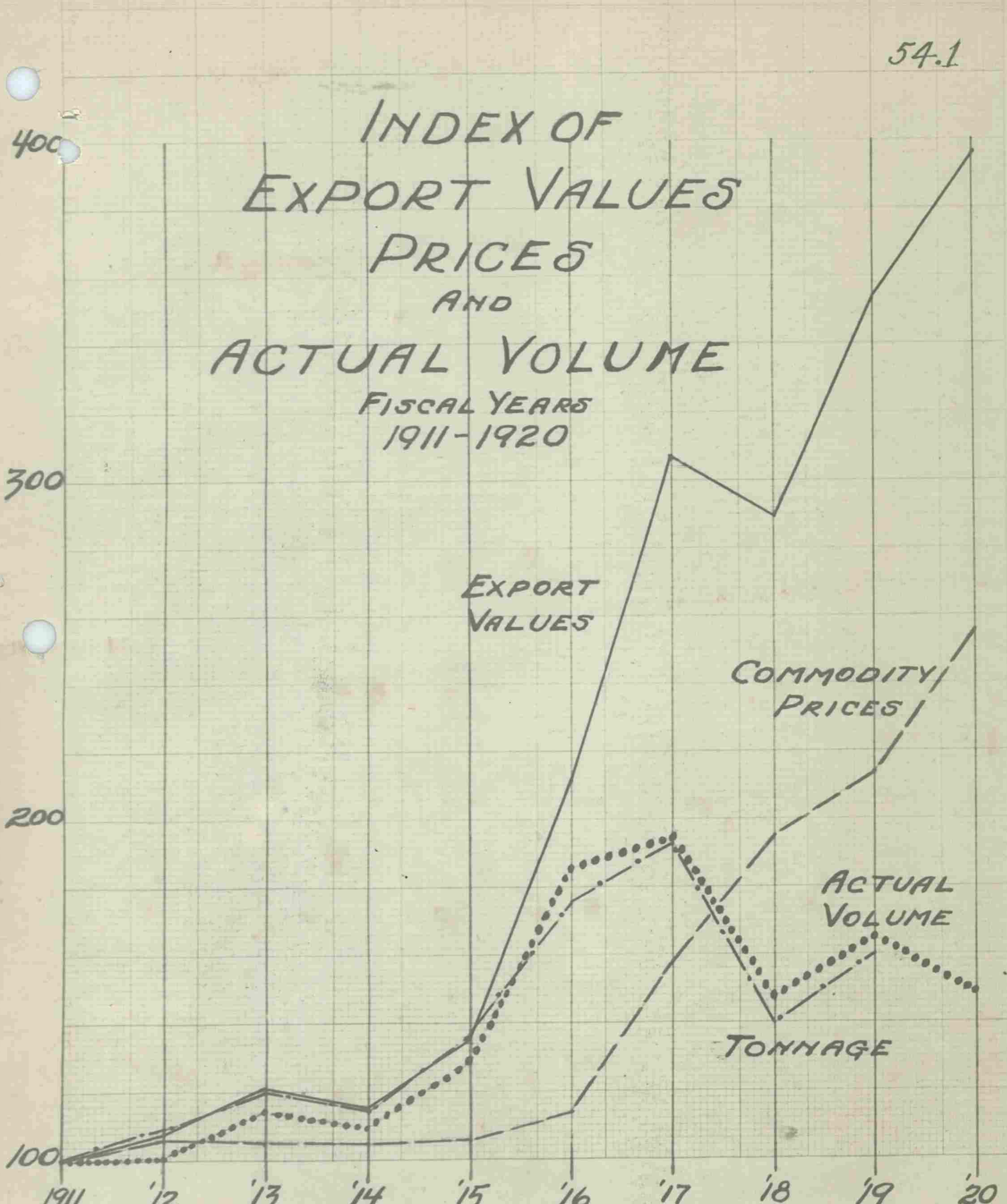


Millions of Dollars
DEPOSITS·LOANS & CIRCULATION
FEDERAL RESERVE SYSTEM
1917-1920
TOTAL NOTES IN CIRCULATION
RESERVES
TOTAL GOLD
NET DEPOSITS
REDISCOUNTS & ADVANCES
ARMISTICE
X
X BELOW 100 MILLION
3,000
2,000
1000
500
300
200
100
J 1917 J 1918 J 1919 J 1920 J

54.1

INDEX OF EXPORT VALUES PRICES AND ACTUAL VOLUME

FISCAL YEARS 1911-1920



FS no. 5.1
Chart no. 54.1

OCT 28 1920

For Gov. Strong

PRICES

The extraordinary rise in prices, which began shortly after the Armistice, continued until about the month of May, and for that month the Government's index of wholesale commodity prices was 32 per cent. above March of the preceding year. But even prior to the high point in May there were notable declines in a number of leading staples, especially in silk, wool and hides. In April came the panic in Japan, which, exactly as in 1907, was the forerunner of reports of commercial distress in other parts of the world, even in far away Java. Almost simultaneously, price declines began in all the leading commercial nations, at least in commodities at wholesale. This was not in any equal degree true of retail prices, and, indeed, retail trade remained good and retail prices fairly stable to the end of the year. But it was clear that the peak of the great boom had been reached, and the downward tendency in prices brought to a sudden end the heavy speculation in many commodities which the long rise in prices had invited and stimulated. It also brought about a flood of cancellations of orders and revealed a situation the extent of which had been but little realized. For the rising prices, and especially their acceleration in the autumn and winter of 1919-20, had not only induced heavy speculation in raw commodities but had created among merchants and

MISC. 4-90M-12-19

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE ______________ 192__

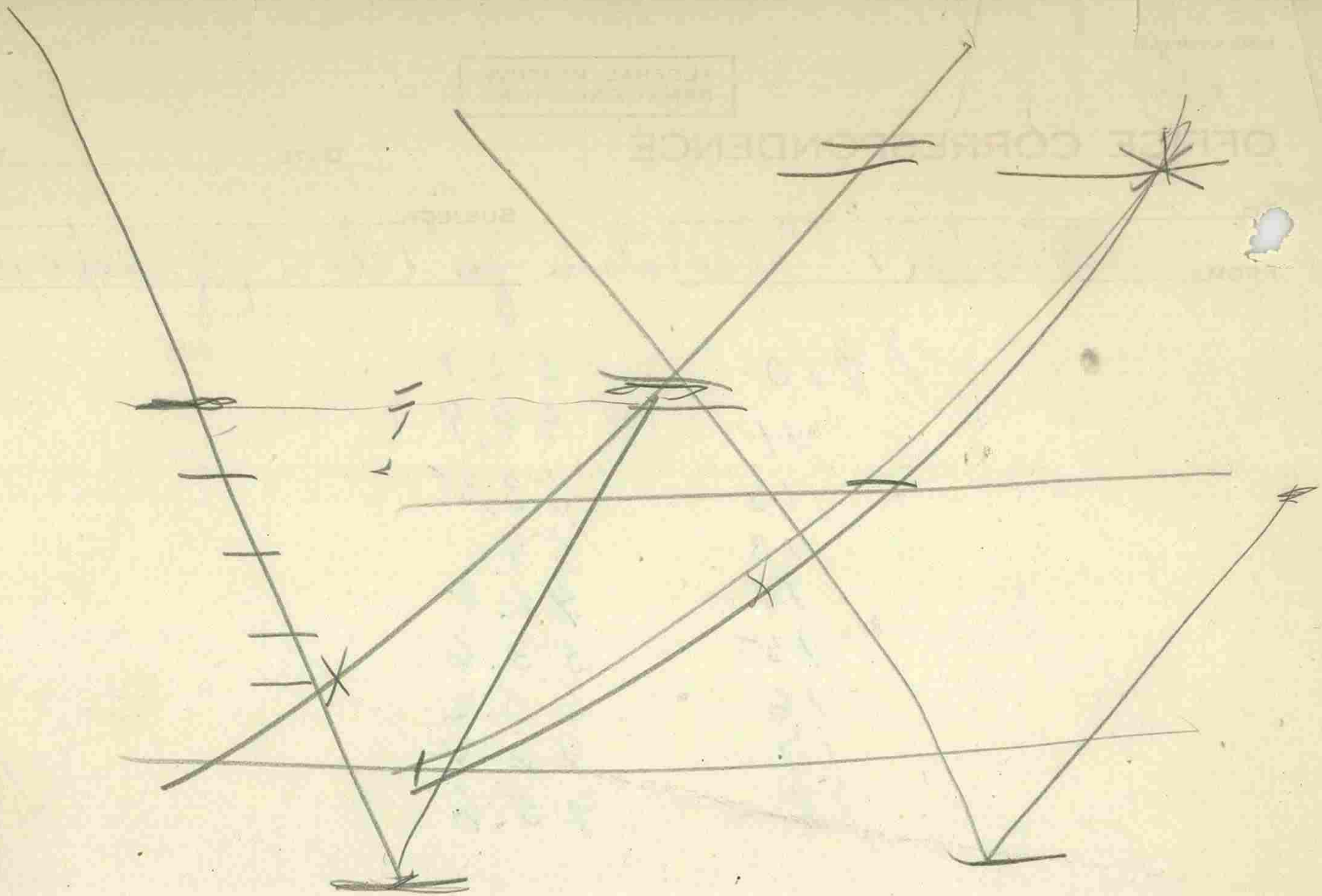
TO ______________

SUBJECT ______________

FROM ______________

Fisher's Calculation for Velocity of Deposits

1910.	52.7
'11	49.9
12	53.5
13	54.
14	46.8
15	53.6
16	60.2
17	92.4
18	95.6



January 28, 1921

Governor Strong THE RISE IN PRICES IN THE WAR

Mr. Snyder

Your question is:

"Did the expansion in our bank credit and currency from the beginning of the war until the present time reflect the advances in the prices of goods brought about by the insistent demands beyond capacity to produce, or did high prices result from an over-expansion of credit caused by war borrowings, etc. In other words, is the high price level a cause or an effect?"

This is a subject about which argument will apparently be endless if we have no solid basis of fact upon which to build an opinion. As the matter seemed worth while, this department has made a number of studies in the last year which offer such a basis, and the results we have obtained have been confirmed by other investigators, as in the Harvard Bureau of Economic Research.

I. First as to periods. The main rise in prices in the war took place before our entry into the war, and after the war had closed. The index figures, as given by the Bureau of Labor Statistics (base of 1913 = 100) were as follows:

	July, 1914	100	April, 1917	172	Nov., 1918	206
	April, 1917	172	Nov., 1918	206	May, 1920 (peak)	272
Increase		72 per cent.		19.8 per cent.		32 per cent.

That is, in the period of "the withdrawal of more than four million men from industry," of "huge Government borrowings," etc., the rise in prices was relatively small.

II. We now have three sets of production indices covering the period, compiled from different points of view and employing weighted and unweighted, or rather equal-weighted averages. These were prepared respectively by Prof. Day of the Harvard Bureau, Prof. Stewart of Amherst, and by this department. These index figures, by calendar years, from 1912 to 1918 inclusive, compare as follows:

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Mr. Snyder

Calendar Years	Day	Stewart	F. R. Bank, N. Y.
1912	357	212	50.96
1913	357	202	52.64
1914	339	202	51.10
1915	371	224	54.92
1916	407	234	62.26
1917	418	248	65.69
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The percentage of increase from the average of the three years of 1912-1914 to 1917 compared, on the three indices, as follows:

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THE RISE OF PRICES IN THE WAR

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(3) If the rate of growth of our exports, in actual volume, was approximately the same in the five years before the war as in the years of the war, as shown by the attached chart; then the question is:

> Does this trifling increase in the export demand occasioned by the war present an adequate explanation of the greatest rise in prices, as measured in gold, ever known in this or probably any other country since the making of prices began?

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X. Let us now turn to the other side of the problem and note this:

(1) The rise in prices in the United States did not notably begin before the fall of 1915, a full year and more after the outbreak of the war. In this period the "demand" was very great and our exports increased. Prices did not go up.

(2) In the six or eight months following the outbreak of the war there was a heavy <u>export</u> of gold from this country. It is at least notable that the rise in prices did not begin until this export of gold had been replaced by imports and a considerable surplus shown.

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Governor Strong THE RISE IN PRICES IN THE WAR

Mr. Snyder

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Now, as to this it is to be said very simply that every dollar of "war demand" was equal to a dollar of home and ordinary demand, and no more. There was nothing magical about the war dollar.

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We are driven to the clear conclusion that, contrary to the almost universal belief, rising prices do not very greatly increase the rate of production. Nor do falling prices very greatly depress this normal rate, and in general not at all.

Over a long period of years our national product increases at between 3½ and 4 per cent. per annum. This rate varies from year to year, but the variations do not correspond with the direction of rising or falling prices, save for very short periods, measured perhaps in months.

XII. In a broad sort of way, prices rise with the increase in bank loans, as is shown very strikingly by the comparison of prices and loans, both in this country and in England. If we take the average annual prices and plot these with the volume of bank loans at an intermediate point, as for example June 30 in each calendar year, the result is a parallelism that can scarcely be accidental. It is set forth in the accompanying chart.

XIII. The conclusion, therefore, would be apparently as follows:

The excess demand in this country, occasioned by the war, was not greater than the normal variation between good years and bad, and was probably far less, possibly

January 28, 1921

Governor Strong

THE RISE IN PRICES IN THE WAR

Mr. Snyder

not one-half so great. The war's demands, therefore, seems a totally inadequate explanation of the rise in prices.

In a rough sort of way and excluding years of extreme depression, the demand is always pretty close to 100 per cent. of the supply. That is only saying that, in a broad sort of way, goods are exchanged for goods and money is only the mechanism or vehicle of the exchange.

Practically the only way to increase prices is to increase purchasing power by an excessive addition to the volume of credit and currency. And in the war the expansion of bank credit and currency went hand in hand with the rise in prices.

There is almost no one to contend that high prices could have been financed without a corresponding increase in bank credits. Therefore, if there was no excessive demand it seems to follow that the increase in bank credits alone was responsible for the increase in prices.

If this conclusion seems extreme let us simply imagine what would have happened if we had had no Federal Reserve System to expand credits, and all of the gold received from abroad had been buried in the ground. The increased exchanges due to rising prices could, therefore, have taken place only in one of two ways: either by an increased velocity of bank credits or by a fall in the prices of other goods than those included in the war's especial demands.

We have as yet no accurate estimates of the increase in the bank credit velocity. Prof; Fisher's computations, as he himself observes, have been so far removed from their base as to become simply estimates. There is some reason to think that the increase in velocity in the war was not very great, only enough, perhaps, to account for the difference shown between the expansion of loans and the percentage rise in prices.

What apparently happened in the war was that the normal check to rising prices, which inheres in the check to exports, and the outflow of gold, was absent. Therefore, an excessive expansion of bank credits was free to work its full effect.

MISC 3

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

Date Feb. 9, 1921

To Governor Strong

Subject:

From Mr. Snyder

You may like to see the first results of an attempt tp get at the decrease in the purchasing power in what is still our basic industry. The three charts show how closely the average annual value of the crops is reprêsented by the estimates from prices as of December 1, as compared with the average of prices in the main marketing months and the average of prices for the twelve months of the "crop" year. The figures represent the annual product of each year multiplied by the varieue prices chosen. On the average of these three crops the total value (i.e., purchasing power) has been more than cut in two from last year. It is doubtful if the average of retail prices has declined as much as 20 per cent.

MISC 3

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

Date Feb. 11, 1921

To Governor Strong

Subject: CAUSE OF HIGH PRICES

From Mr. Snyder

As an addendum to the memorandum on "The Cause of High Prices," it has occurred to me to compute the percentage of increase of bank loans for the same periods as for the rise in general prices. For the odd dates of April, 1917, and December, 1918, only an estimate was obtainable, but I think the results are fairly close. These percentages, for the loans of all the banks of the United States, compare as follows:

July 1, 1914, to May, 1917	Increase, 33 per cent.
May, 1917, to December, 1918	Increase, 18 per cent.
December, 1918, to July 1, 1920	Increase, 31 per cent.

In other words, exactly as with general prices the main increase in bank loans was before our entry in the war and since the Armistice.

It does not make any material difference in the percentages if you include in the period of our participation the four or five months following the Armistice, because in these four or five months both prices and bank loans declined instead of rose.

Before our participation, the percentage of increase in bank loans was not nearly so great as in prices, but from April, 1917, to the Armistice and since the Armistice the correspondence between the increase in prices and the increase in loans is very remarkable--far too great, it seems to me, to be other than that of a close or causal relationship.

MISC 3

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

Date Feb. 15, 1921

To Governor Strong

Subject: Bank Rate Policy

From Mr. Snyder

I attach herewith, as you requested, a copy of Prof. Sprague's very noteworthy address at the meeting of the American Economic Association, and with it the draft of something on the same idea which I drew up in November. For the latter the figures are a little out of date, but the idea remains.

I should particularly draw attention in Prof. Sprague's address to the relation which he develops on page 4, of deposits and loans to the amount of money estimated as in circulation. Prof. W. I. King has also investigated this relation over a long period of years and has shown that, with the exception of the war period, when the ratio of deposits to cash rose very rapidly, the ratio has varied but little in the last twenty years and has been around 4½ or 5 to 1. In the last year or so it has been about that.

It seems to me that, as Mr. George Roberts puts it, there is here a means that gives the Federal Reserve Board and banks a real grip on the credit situation in this country.

If, as now seems definitely to have been done, we have given over the idea of hoarding the gold, then a positive limitation of the amount of Federal reserve notes to be issued would draw gold into general circulation as bank loans expanded, and the demands for more hand to hand currency increased. This would draw down the gold reserve, force up interest rates and discount rates, and bring a check to further loan expansion; hence to prices.

This is, of course, exactly the system which had operated so admirably in England, up to the war, for nearly half a century.

Do you not think it is now clear that we have gone, in this country, from a perhaps too rigid currency system to one that is altogether too much elastic, and that this is responsible for a good part of the topsy turvy conditions of the last two years?

I should be very glad to know your judgment on the matters discussed in the last paragraph of the current Business Summary.

B of E plan –

MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 17, 1921

TO Governor Strong

FROM Mr. Snyder

SUBJECT: Copy of letter regarding Bank Rate Policy

A friend of mine, of real competence and understanding, sends me the following interesting suggestion regarding the control of the bank rate:

"In reference to our conversation regarding the automatic fixing of rediscount rates, the case may perhaps be stated as follows:

"1. To prevent money panics, money must always be loanable on proper security. The expansion and contraction of loans shoudd, therefore, be determined by the interest rates charged and not by any arbitrary, or seemingly arbitrary, decisions of the banking authorities.

"2. To prevent the over-expansion of business during periods of prosperity, the increase in interest rates must be greater than the increase in profits from new investments, after a certain normal limit of loan expansion has been reached.

"3. To enable business men to conduct their affairs with reasonable certainty and confidence, the adjustment of interest rates to loan expansion and contraction must be automatic and not subject to political pressure.

"4. To secure the greatest possible stabilization of busibusiness it must be possible to forecast the changes in interest rates with reasonable certainty.

"In view of the above considerations, it may be practicable to establish, by law or regulation, a formula (or equivalent scale) for rediscount rates such that the rates in question will increase in geometrical progression as the reserve ratio falls. For example, if a 6 per cent. rediscount rate is assumed to be normal when the reserve ratio is .50, the formula might read:

$$\text{Rediscount rate} = \frac{1.5}{(\text{Reserve Ratio})^2}$$

"Such a formula would give results as follows:

Reserve Ratios	Rediscount Rates
.30	16.7%
.40	9.4
.50	6.0
.60	4.2
.70	3.1

"If necessary, the increase in the rediscount rate could be made still more rapid by using a formula such as:

$$\text{Rediscount Rate} = \frac{.75}{(\text{Reserve Ratio})^3}$$

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 17, 1921

TO Governor Strong

SUBJECT: Copy of a letter regarding Bank Rate Policy

FROM Mr. Snyder

2

"This would give the following results:

Reserve Ratios	Rediscount Rates
.40	11.7%
.45	8.2
.50	6.0
.55	4.5
.60	3.5

"The essential thing, as I see it, is to have an automatic scale of rediscounts which will rise much more rapidly than business profits during periods of business expansion. My impression is that it is not of absolute importance to establish any particular initial relation between the reserve ratios and the rediscount rates. Business will soon adjust itself to any credit facilities that the banking system affords and, sooner or later, prices will rise or fall until we lose or gain gold in such amounts as to establish a natural balance between interest rates and the gold reserve. When this balance is established, we should thereafter rock back and forth in reasonably stable equilibrium, if only the rediscount rates rise and fall at a rate distinctly more rapid than that of the changes in business profits.

"I am assuming, in any case, that credit expansion will go on to a point where, except in times of greatest loan contraction, there will always be a considerable reliance on rediscounts for the establishment of member bank reserves. I am assuming, also, that action along the lines proposed will tend to induce somewhat similar action by the central banks of Europe. If such action is not taken abroad, we should undoubtedly lose some, but not all, of the stabilizing effect of our own practice.

"Finally, there may be distinct advantage in the adoption of a formula for rediscount rates that gives very high figures for low reserve ratios. It is very difficult at this time to determine what the future moral effect of high rediscount rates will be as compared with the effects due to the actual cost of new money to member banks. It is possible that, in time, the moral or hortatory effect will weaken and control of credit will depend more largely on the actual cost of added credit secured through rediscounts. If this should be the case, it will be desirable to have the higher rates automatically come into effect, even if they are quoted only by formula in the initial plan."

Feb. 21, 1921

Governor Strong

Mr. Snyder

I attach what further information Mr. Riddle could get here.

I saw Mr. Leffingwell and got what he had. But it seems very difficult to get at the actual facts of the situation now. I hope to do this in Washington on Monday. Mr. Leffingwell's idea was that the Philippine Government ought to replenish the fund by a sale of bonds. But this, as you know, would now require an act of Congress. I am not able yet to find out just how pressing is their need.

I attach herewith the draft of the letter you asked for.

Memo for Gov. Strong
for London (B.E.)
Feb. 18 '21.

PRICES

Our fall in prices has somewhat exceeded yours. Our index of 12 basic commodities shows to date a decline of 47 per cent. from the peak, while our index of 25 basic commodities in England, compiled from cable advices each week, shows on the same date a fall of 44 per cent. from the peak on May 1.

The Bureau of Labor's index, which is the best measure of the price level which we have, shows a decline for the averages of January of 35 per cent. from the peak, while your Economist's index for February 1 shows a decline of 33 per cent.

Retail prices have declined hardly half as much--retail food prices, which is the only index available, about 20 per cent. Reports from our large retail department stores and drygoods establishments indicate that their spring prices will average about 16 per cent. below those of last year. This is a pretty wide "spread" between the wholesale prices which, in the case of the textiles, runs from 40 to 50 per cent. below last year and indicates a good deal of confidence on the part of the retailers.

LOANS AND RESERVES

Speaking of the country as a whole, the liquidation in loans has been thus far extremely small. Loans on commercial paper in the Reporting Member Banks in the Federal Reserve System show a decline of about 6 per cent. from their peak of last October, and total loans of all kinds in these same banks about 5 per cent. At this season of the year there is generally a slight contraction, so that, broadly speaking, credit liquidation has made little or no headway thus far.

The contraction in our note circulation up to last week was a little over 10 per cent. from the peak of December. But this, again, was little more than the contraction a year ago and two years ago, and it will be some weeks before we can determine whether this contraction will go on or whether it has about run its limit. I will say that it was the very general expectation that this contraction would be very considerable, and it is a matter of surprise that it has thus far been so small.

The reserves of the Federal Reserve System, as you know, have shown a small but steady improvement for many months, and last week were but a fraction below 50 per cent. The same is not true of this bank, which still remains below 40 per cent. But a considerable part of this latter is due to the fact: first, that the country correspondents of the New York banks have drawn down their balances very heavily, which has forced the New York banks either to borrow from us or reduce their loans; and second, that the New York banks have been compelled to loan a quite unusual amount to their country correspondents, these loans in some cases being two or three times as great as usual at this period last year. The banks of interior, as well as here, have had to do a considerable amount of rediscounting of paper of the smaller banks not eligible at the Federal Reserve banks. It had been expected that by this time a considerable part of these loans to interior banks might begin to return, but so far there has been very little of this.

As you probably know, the reserve banks of some of the Western and Southern districts are likewise very low, and until this situation is rectified it is probable that there will be no considerable return of funds to this center.

INVESTMENT MARKET

It is the general report of banking houses and the brokers that the amount of investing at the end of last year was unusually heavy and this was especially true of stocks. Apparently a very large quantity of stocks were paid for in cash and taken out of the market. These reports are alike from the large dealers and the so-called odd lot houses. In general, the investment market since the turn of the year has been fairly good and the issues brought out pretty well cleaned up. There has been distinctly a tendency, however, for prices to ease off a little after the syndicates were closed out and this has been a little discouraging, and apparently has given indications of a slight droop in the forward outlook.

MONEY RATES

The money rate, as you know, has continued at the very top, with very little change in the last eight months. This has been very remarkable and brought the average rates on commercial paper for 1920 up to the highest annual average since 1873. In fact the average for the last eight months would be well up towards the highest probably of any eight months since the civil war, and the demand still continues fairly heavy. For example: this week a very solid and substantial manufacturing concern - the Deere Company, makers of agricultural implements, of Moline, Illinois, - came into the market for $10,000,000 of gold notes at an offering price of 7.65, which meant that the money cost them between 8 and 9 per cent. This is an exceptionally conservative and well managed concern that has carried its inventories on a 1914 basis, and the fact that such a concern would be willing to pay this rate for money indicates how heavy is the pressure. On the other hand, the dealers in commercial paper generally report that the market is rather thin, especially as regards the highest grade names, and that whilethe rate shows little signs of easing as yet, the pressure seems distinctly less. That is, the better class houses seem to have fairly well satisfied their present demands and will not come into the market for very large borrowings until the rate is lower.

GOLD MOVEMENT

Gold imports during January were about $38,200,000, the smallest amount since last August. Of this, $22,300,000 came from England, $5,500,000 from Aisia, and $4,700,000 from France. Japan, which for many months has been drawing gold from this country, sent us over $2,000,000 during January. Exports amounted to only $2,700,000, of which $2,200,000 went to Mexico. Imports exceeded exports by nearly $35,500,000, compared with about the same excess of exports over imports for the corresponding month last year.

STOCK EXCHANGE LIQUIDATION

A number of large brokers report that their loans are at a very low point. A canvass made by one large brokerage house showed that among the very houses with which it had considerable dealings, the loans of a number were at the lowest point in many years. This is borne out by the report on street loans of the New York banks, which shows a decline of about 50 per cent. from the peak in October or November of 1919. We have no records going back a long way, but the indications are that this is about the limit of liquidation after the most severe crises.

COMMERCIAL FAILURES

Throughout the country business embarrassments continue below normal, in spite of the tremendous strain of the last half year. We maintain an index of the number of failures based upon the experience of the last half century and this shows that the percentage of firms failing to those reported in business has been abnormally low for the last year or more. It came up in January to near 90 per cent. of normal, and for February, allowing for the usual seasonal variations, was a little above that. But neither number nor the amount of liabilities has been anything like as great as was the universal expectation. The remarkable thing is that this low range of failures appears to have been equally true in and following the great drop in prices at the end of the civil war. For several years after the close of our war failures were sub-normal and did not begin to rise sharply above the normal until along towards the crisis of 1873. I do not, therefore, look for any great increase in failures this year. The potential number, due to the tremendous drop in the average level of prices was so great that it was more or less a question, so to speak, of all or none. In spite of the epidemic of small bank failures in the mid-west, the total number for the year was not very great, not, I should say, over about two to three times the average for the last ten years, which was very low. A full quarter of them occurred in North Dakota alone and almost two-thirds in the mid-west section from north to south. The difficulties in North Dakota were in part occasioned by semi-socialistic finance of the farmers government out there, but for the most part precipitated by the great drop in wheat and other farm products.

GOVERNMENT BORROWINGS:

The latest issue of Government Certificates of Indebtedness due July 15, 1921, was heavily over-subscribed, $100,000,000 asked for and subscriptions totalling $218,000,000. The quota for this district was $33,000,000 and the subscription $80,000,000.

Outstanding on January 21 the total amount of these certificates was $2,351,159,500.

These subscriptions were on a 5½ per cent. basis, or from 1/4 to 1/2 per cent. lower than recent offerings, and they are reported this morning in the market at a slight premium.

GOVERNMENT BUDGETS

You have probably noted the Government estimates for 1921, fiscal year running about $4,600,000,000. To this, however, must be added ~~the~~ the estimated deficits in the Post Office Department, which will bring this amount well over $5,000,000,000. Just as you know, there is a very large amount of talk of great reductions and much agitation among the business men's associations, etc., towards this end. But, when it comes down to brass tacks, the bills go through with very little retrenchment. Washington has not yet waked up to the fact that the country has had a very severe set-back and that it can't go on pouring out the Government's money at the present rate without severe consequences. A great deal will depend on who is chosen for the Treasury portfolio. If he is a strong man, with real influence, something may be done. But the present outlook is not overly encouraging.

CONCLUSION

A concensus of competent opinion I think shows that, in general, liquidation alike on the stock exchanges and the field of speculation in commodities has been extremely thorough. The decline in industrial stocks has run a full 45 per cent., and we are now passing through the usual period of dullness and weakness that generally follows such a long and drastic decline as we have had. My impression is that this liquidation is so complete that the general trend of the market for the next year or more will be upwards. It would not greatly surprise me if, towards the end of the year, and conceivably even earlier, we might not see the beginning of a strong and long-continued bull movement. But if it comes too soon it would be premature and probably short-lived.

On the other side, the commercial side, it seems doubtful if the liquidation has been as thorough as on the investment side. The banks have had to carry over a great number of enterprises of every kind and description, weak and strong, and there are no doubt here a great many weak spots that have not yet been taken care of. There is always the possibility that some of these may be large enough so that, if several of them topple rather closely together, it might bring on a real disturbance. But my feeling is that the banks and the whole business community are so alive to the possibilities here that the danger is not very great and that it is slowly becoming less so. There is always the possibility that the return to optimism may be premature and that we may have another set-back.

I do not think there has been the same liquidation in what you may call the field of spending. I mean that the typical spenders have not yet spent all their money. While the wholesale trade has been very sharply curtailed and forward buying almost at a standstill, retail trade, especially in the larger cities, has unquestionably been very good, both during the holidays and since. It has been so good, in fact, that the decline in retail prices so far has been disappointingly small.

But the decline in the purchasing power of the largest single class in a community, the farm population, and its immediate dependents, has been very great, amounting to nearly one-half, as compared with last year. There has been no corresponding decline in the prices of the things which these people have to buy, and until this wide discrepancy is adjusted, I do not look for any very great improvement in general business. Putting it in a time limit, I do not see the probability of any sharp improvement much till toward the end of the year, if then. But there is always the possibility that the fall in wholesale prices has been so unprecedented and so violent that we may have a very sharp rebound such as came in 1865, after the big drop of that year. The effect of such a rebound would undoubtedly be to give a great impetus to business for the time being. But my impression is that if this comes too soon it will be short-lived.

For the long outlook, I can see very little prospect that we shall lose very much gold, and the liquidation in bank credits may not be very great. In the last half century it never has been great -- measured by our national bank reports it has never amounted to more than about 7 per cent in the last half century. If we do not have a drastic reduction in bank loans then, with the present monstrous volume of both loans and currency outstanding, it seems to me that another great rise in prices is almost inevitable. I should not like to suggest how far it will go, but, as you realize, we now have none of the usual check upon the rise in prices that inheres in gold exports. We seem more likely to gain gold than to lose it. If this proves true, then I cannot see any sustained fall in prices in this country for several years to come, and that will mean more or less for the whole world. Practically speaking, prices in all the great commercial countries measured in gold are substantially the same, and whatever is the general level in the United States will mean the general level for most other countries.

Feb. 23, 1921

Governor Strong — Philippine Exchange Situation

Mr. Snyder

The substance of my talk with General McIntyre, at the head of the Bureau of Insular Affairs, was this:

That the chief source of the trouble with the Philippine exchange is the fact that the Philippine Government has not steadily transferred funds to New York, as it sold exchange, in order to keep the gold fund intact, and the result is that this fund it now down to about 3½ millions, as reported.

For the latter months the balance of their trade has been against the Filipinos to the extent of 74 million pesos, to say nothing of the invisible balance which is always hard to reckon. Apparently the Filipinos thought that this unfavorable current would turn and, so to speak, that the gold fund would build itself up; which it has not done. And they are therefore in a hole.

They figure that they need about 15 million dollars, not pesos, to tide over to about the first of April, when they think the situation can then take care of itself. A bill was put into Congress to raise the bond limit so that the Philippine Government could sell its bonds or notes and replenish the fund. But as soon as Congress found that this was an emergency measure and not a general one they stopped it.

Now General McIntyre is trying to get the War Department to deposit funds for Manila credit, sufficient to meet the situation, but does not know if they have enough.

Practically what has been done has been to sell exchange and use the proceeds to inflate the currency, then keep up prices. The money so obtained has been deposited in the Philippine banks and loaned out on wartime values. Mr. Wilson, the new manager of the Philippine National, has been out there only a little over a month, and his cables indicate that the situation is rather tangled; but he is

Feb. 23, 1921

Governor Strong

Philippine Exchange Situation

Mr. Snyder

hopeful that they will be able to force the sale of goods, even at a loss, and liquidate loans enough in the next six or eight weeks to get the situation in hand. But of course this is not what the Filipinos want.

As far as the immediate pressure goes, it apparently comes from the New York foreign banking corporations that have very considerable funds out there which they cannot get back except at a rather heavy discount. And they would be very glad of a chance to pass the buck.

General McIntyre could hardly say just how urgent the situation is. But apparently it is not very dire. Everyone speaks highly of the new manager, and he apparently thinks it simply a matter of tiding over to get the situation properly in hand.

It is so much of a political situation that it is difficult to make a recommendation.

Feb. 24, 1921

Governor Strong

Mr. Snyder

You may be interested in this chart which sets forth the relation between street loans and commercial loans in the New York City banks, the rate of turnover of the average amount of net deposits, and activity on the Stock Exchange. The thought behind it was to set forth very clearly how little commercial loans, even in New York City, appear to be affected by stock speculation.

MISC. 4-90M-12-19

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE Feb. 25 1921

TO Gov. Strong

SUBJECT:

FROM Mr. Snyder.

May be you would like a glance at this. - It's just a little outline of point of view, and program, here.

Paper at Washington Conference

February 22, 1921

THE INTERPRETATION OF REPORTS ON BUSINESS CONDITIONS

After Dr. Miller's admirable address yesterday, and the discussion which followed, there does not seem a great deal left to say. The ideal interpretation is not difficult to define. It would obviously be a clear-cut application of economic and financial theory to current conditions and problems. But Mr. Breck has reminded us that economics is still a highly controversial subject, and I regret to say that the same is true of matters of finance. And this is perhaps a measure of our present situation.

It is clear that controversy, always, is born of ignorance or uncertainty. You cannot have very much controversy about the length of a yardstick or, let us say, the theory of gravitation. Economics and finance and our knowledge of the laws of trade and prices have scarcely advanced so far. Otherwise, our banks would scarcely have the great quantity of frozen loans with which they are now burdened. Nor would trade be in the position where it now is.

Now, as regards reports on business conditions, it is evident that everyone will concede their great value. Our business world could now scarcely get on without them. We recognize the value of the facts. The question is on the interpretation.

Now we may as well recognize that what we mean by interpretation is, in plain language, forecasting, predicting; in other words, offering an opinion. And I do not see how it can ever be very much otherwise, unless it is the barest and most uninteresting statement of fact. You can scarcely collate any considerable amount of data, expressing trends and directions, without an implicit expression of opinion, that is to say, some sort of a forecast. But we shrink just a little from putting it in exactly this way. Why?

If we stop to examine the matter we shall see that forecasting, predicting, forming an opinion, is the very essence of everyday business life. Every merchant must regularly make up his mind whether he shall buy certain goods at a certain price, in the expectation of a certain market, and attempt to sell them at a certain price. This is just what business is. And to do this he consults everyone whose judgment he regards as of value, he reads the papers, recalls as best he can exactly what has happened before and goes ahead, to success or failure. You may say if you like that the whole of his success depends upon this very ability to predict, to forecast. Even the apple woman on the corner must do it more or less.

And all this is really but a part of the whole scheme of our civilization, which in its very essence is in general a more or less intelligent and successful effort to anticipate the future. It was the service of that very interesting and half-forgotten character of the last century, the economist John Rae, to point out that the difference between civilization and savagery is very largely a difference of provision for the future. Among the savage tribes you will find very little of it. All of you are familiar with the amusing story of the man who could not repair the leak in his roof when it rained, for he would certainly then get wet; and when the weather was fair there was obviously no need for it. This really expresses the savage view of life. And Rae points out that among the savages, and even among vast peoples like the Chinese, a large part of the famine and decimation which they periodically undergo is largely due to the want of this anticipation and preparation.

And in the same way Irving Fisher has very clearly set forth that this is the essence of the idea of interest. Among the lower orders of civilization there is very little accumulation of capital, and borrowing is usually of the week to week or month to month character, and at the most fantastic rates of usury--10 per cent. a month and even 5 per cent. a week being not at all uncommon. And just exactly as our human race has developed in the economic scale, the rate of interest has gone steadily downward; and it is precisely among those people like the Dutch, the English, the French, among whom the idea of abstinance for future gain has been most highly developed that, of course, the rate of interest is the lowest.

And in the same way it is precisely in America, where business has become not merely a kind of national passion but a sort of gigantic romance, if you like, that this endeavor to anticipate and forecast has been the most developed. Nowhere else, perhaps, is there such an extraordinary quantity of periodicals and agencies of every kind and description endeavoring to disseminate business information--great financial and commercial daily newspapers, like that of which Dr. Willis is now the head; widespread agencies, like Bradstreet's and Dun's; a great number of organizations whose very business it is to attempt this kind of forecasting,--organizations like Mr. Babson's and Brookmire's, and Mr. Thomas Gibson, and perhaps scores of others. And finally we have now our greatest university gathering together a fine body of the most qualified investigators, under the lead of Prof. Persons, Prof. Day and Prof. Copeland, and undertaking the same thing.

It is obvious that before we can have foreknowledge, before we can predict, we must have hinter-knowledge, past knowledge as it were; and likewise the very best current knowledge as well, and for this we have a great number of Governmental agencies, a large number of associations of manufacturers and producers of every kind, and many reporting organizations, to say nothing of business newspapers and periodicals, so that in no other country in the world does there exist such a wonderful and varied supply of material. To all this very recently has been added the agency of the Federal Reserve Board. I think everyone who has an interest in such matters feels a real debt to Dr. Willis and to Dr. Miller and others who have aided in the development of the fine series of reports which are now published monthly in the Federal Reserve Bulletin.

The question now before us is how to make all this great mass of material available for the business men of the United States, in order, I take it, that we may most greatly prosper as a people and avoid, as far as we may, those foreboding crises and ensuing depressions, with widespread unemployment and suffering, which have seemed to be such a striking development of our modern industrial life.

Now, before I say what it is on my mind to say, I should like to set it forth very distinctly that the organization of all this information and material which now exists is the end and aim in the whole scheme of its preparation and its development. It has no other very serious use. It is doubtless of value to know, for example, that the production of hemp in Manila was perhaps at its highest point in, say, 1917, and that it has since somewhat declined. I do not know if this is the actual fact, but it would readily interest some people to know that it was a fact. And in the same way it is of interest to know that in the day, say, of Henry the Eighth or a little before, tea was so scarce an article that it was sent from one king to another as a royal gift; and in the same way, for example, that wheat bread, in the days of Queen Elizabeth, was a luxury enjoyed only by the noble and the rich.

But we in America, especially, want things that are practical and of immediate or very definite future use. And the business of economic research is to subject our present knowledge to scientific analysis and then synthesis, to the end that we may in very large measure anticipate and predict what will happen, given a certain set of economic conditions. Only in this wise will all this mass of effort have any real scientific character or practical value.

Such is, indeed, the very essence of all the sciences. This has been set forth very clearly by Prof. Jacques Loeb, when he said that the end and aim of all science was "the prediction and control of phenomena." Otherwise, it is merely a matter of academic interest and a more or less entertaining diversion. I say more, or less.

Now there are certain things that are possible. For example, in the last year three different sets of investigators, Prof. Day in the Harvard Bureau of Economic Research, Prof. Stewart at Amherst, and our department at the Federal Reserve Bank, have gone very extendedly into the question of national production, its rate of growth and variation from year to year. This work was done independently, and from different points of view and by different methods. The general concurrence was remarkable. We now know very closely what is the rate of our industrial growth, and we know that this rate has not substantially varied throughout the last fifty years, a little faster in one period, a little slower in another, but in general quite remarkably the same.

Now, utilizing this material, it is not at all difficult to look forward for a certain way, say five years or ten years, and say with a great deal of confidence what will be the approximate or average production of pig iron in 1931, what will be the approximate needs of railroad traffic for that year, and about how much wheat we shall raise and export or import. These matters are now almost as predictable as the probable growth of population.

But all this sort of thing is of interest only to relatively narrow groups of people, to pig iron producers or to railroad presidents, and the like. Business is not yet conducted on such a long-time anticipation. Some day, and perhaps soon, it will be, and then we shall not have, perhaps, such crises and depressions and alternations of good times and bad. Nor, perhaps, does this sort of thing need very much "interpretation." The facts or the forecasts are very definite, the degree of their probable value can be very definitely stated, and the facts can speak for themselves.

What we really mean by interpretation is, if we come down to brass tacks, very largely a prediction as to prices--prices and sales and profits. From this, I do not see any clear escape. And, indeed, this is what business men want and the thing that they are really interested in. You may write an interesting little dissertation on the nature of capitalism or the value of thrift, and the interest it will have will depend upon the extent to which you offer some slightly novel point of view. These are not deeply passioning subjects. It is a different matter when you come to tell the cotton planter or the cotton factor, or the retail merchant, what he will get and what he will have to pay for his goods.

So posed, the question that is in my mind is fairly clear. Is this a proper Governmental, or quasi-Governmental, function? My feeling, setting the matter forth in just this way, is that very distinctly it is not; for a double reason. Dr. Willis has very well stated one side of the question when he said that the Federal Reserve Board and the Federal reserve banks differ from any other kind of business reporting agencies in that, to a limited extent, at least, they have a certain power of enforcing their opinions or beliefs by action. This is not true of Dun's or Bradstreet's, or of Babson's or Brookmire's, or of the Harvard Bureau. Their opinions, predictions, forecasts can be and are taken for what the individual subscriber comes to believe that they are worth. This is not true of opinions expressed in the various publications and reports of the Federal Reserve System. These have, to a certain extent, the value of judicial *obiter dicta*. They more or less reflect or indicate the trend of mind of those who have a good deal to do with the shaping of the rates of discount, and therefore eventually with the course of business and prices themselves. You may say, if you like, that this is just what the business world really wants, and needs, and that the public interest will in this way be best served. There is obvious force in this view.

But there is another side to the matter, about which we may feel a certain degree of caution. I think it is fairly clear this year that our theory of the movement of prices is, as yet, very distinctly inadequate and incomplete. I hardly know of anyone in the United States who dreamed that such a tremendous fall of prices could take place as actually has taken place in the last eight months. Or if any such person had any such idea it was simply a dream, and nothing more. I think it is fair to say that we had no sure basis upon which to forecast or predict. We might have a feeling, a hunch, but that is not a very scientific mode of procedure.

And in the same way, at this moment who can say, or who will venture confidently to predict, what will be the course of prices in the next six months or a year? I am myself a rather dyed-in-the-wool believer in the general validity of what is termed the modern theory of prices, that they depend chiefly upon the volume and velocity of bank credits. So, for example, are Prof. Fisher and Prof. Kemmerer. It is a matter of note that their views as to the probable course of prices are almost diametrically divergent. Prof. Kemmerer thinks that, barring natural reactions which almost always occur, the general trend in the next few years will be downward. Prof. Fisher cannot see the slightest possibility of such a continued fall. I am not going to hazard an opinion here, but I have one, and I do not know that it is quite coincident with either of these. So you will see that even those who belong to the same school of thought and have the general habit of looking at matters in almost identically the same way may be at wide variance in their judgment of just what will happen.

And precisely the same, I think, is generally true of those who have not this point of view. There is equal difference in judgment. And if you will look back a little you will recall that this has practically always been true. After the Armistice it was a very confident prediction among many very intelligent persons that there would be a drastic drop in prices. Instead of this we had the wildest rise in prices ever known in peace times--nothing like it in a whole century. So far as I can recall there was almost no one clearly to predict this tremendous and demoralizing rise. If it had been clearly a matter of foreknowledge, certainly our business men and bankers and economists would have united in some very definite measures to attempt to prevent it. Looking back at it now it is fairly easy to see why it happened. But this is "hindsight," not foresight.

And in the same way there was almost no one, or at least only a very few, who foresaw clearly the tremendous rise of prices that would occur in the war. If that question had been a clear matter of foreknowledge, I think it fair to say that we should never have permitted the great inflation of currency and credits that took place. Or if this was inevitable, we should have tried some means of counteracting it.

So as to our immediate problems. Today who can assure, who can guarantee to the cotton planter or the cotton buyer that 13 cents is a fair price or a low price for his cotton? Within seven years, and for months after the war had begun, cotton was going begging at 7 and 8 cents. From all the South went up the slogan, "Buy a bale of cotton"--and this was not as a good gamble but as an act of friendly cooperation.

Who could have predicted the dumbfounding fall in the price of rubber, in the face of an almost unimaginable demand; selling today at a little more than 10 per cent. of its value a few years ago? Who can say to the wool grower or the tobacco grower: "Grow more wool and more tobacco. You will receive a good price for your product."

You might make a very lucky guess. But if you could do it often enough it is trite to say that you probably would not be engaged in the business of forecasting. The reward of real foreknowledge would be so transcendent that probably it would not be widely disseminated.

I am one of those who believe that we shall soon have something of this kind of knowledge. I will even say that I think we are in sight of such knowledge, and that the foundations have already been laid for its successful development. But I think it is fairly clear that we have not got it now. In another year, if we foregather again, if work now in hand goes prosperously, we may be able to make a different report. But not now. For the present it seems to me that we must confess the present limitations of our knowledge. To vary a little a famous dictum in another field:

Ignoramus; laboremus.

OMS-2 35M-4-20

FEDERAL RESERVE BANK OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE MESSENGER SECTION

TIME ________ A. M. P. M. DATE ________

TO Gov. Strong.

DEPARTMENT DIVISION SECTION

REMARKS

Noted

BS

FROM Snyder

DEPARTMENT DIVISION SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.

TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

from Business Summary. March 8.

Such a rebound would probably bring a general rise, and this would probably do a great deal to restore business confidence and forward buying.

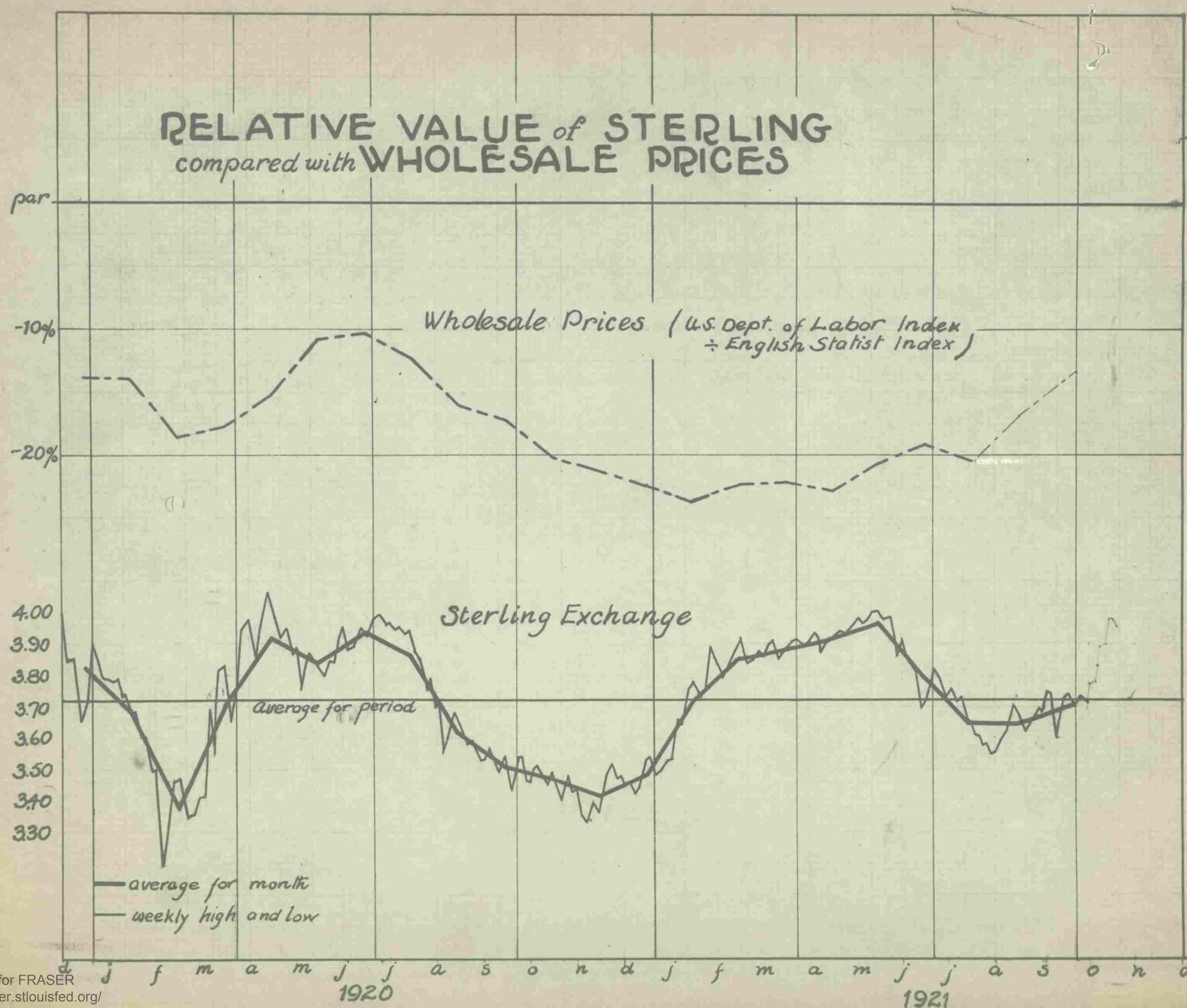
This prospect may not be very near. Indeed, in a private conversation last week, Mr. George E. Roberts expressed the view that there could be no considerable revival of business so long as the buying power of nearly one-half of the community, the farms and dependents, had been so heavily reduced. This has already been commented upon in these pages.

But precisely such a restoration might conceivably take place the present year. An English economist, (Grammond) speaking at one of the English bank meetings last month, declared that the productive capacity of Great Britain was to-day "50 per cent. greater than before the war." This is probably an exaggeration. The productive capacity of the United States to-day has not advanced since 1914 much more than 25 or 30 per cent. But that in England may be somewhat greater.

As you were saying.

Now, productive capacity of this kind means enhanced power to buy goods; for goods, always, are exchanged for goods and not for money. The shipping trade and international trade generally is now at a low ebb. Its revival can scarcely be postponed much beyond the present year. There is no excessive production of ships; the number of steam vessels afloat to-day is not more than would have been required if there had been no war.

Mr. Roberts also suggested that it was becoming somewhat doubtful in his mind as to whether the continuation of a strong deflation policy was now as desirable as it seemed six months ago.


RELATIVE VALUE of STERLING
compared with WHOLESALE PRICES
par
-10%
-20%
Wholesale Prices (U.S. Dept. of Labor Index ÷ English Statist Index)
Sterling Exchange
4.00
3.90
3.80
3.70
3.60
3.50
3.40
3.30
average for period
average for month
weekly high and low
d j f m a m j j a s o n d j f m a m j j a s o n d
1920
1921

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 7, 1921

TO Governor Strong

SUBJECT: Chart from Mr. Gilbert

FROM Mr. Snyder

The chart sent you by Mr. Gilbert simply shows:

(1) That in the Reporting Member Banks the item of "all other loans and investments," i.e., commercial loans and all investments, rose at nearly the same rate as net demand and time deposits, from the level of about 10 billions in 1918 to nearly 15 billions in 1920; and,

(2) That this item of "all other loans" now exceeds deposits.

(3) That the holdings of these banks of U. S. securities, and their loans thereon, rose from about 2 billions in 1918 to 4 billions in 1919, and have now declined to under 2 billions.

(4) That Reserve bank discounts on U. S. obligations reached a peak early in 1919, of around 1800 millions, and are now down to about 1200 millions.

(5) That Reserve bank holdings of "all other bills," after declining very sharply from 1918 to 1919, have since risen steadily from around 400 millions in 1919 to around 1800 millions at the end of last year.

(6) That Government deposits, which from the beginning of 1918 to the beginning of 1920 fluctuated about a level of around 600 millions, have within the last year fluctuated around a level of about 100 millions.

Mr. Gilbert states that the chart "indicates with mathematical precision the exact percentage rates of change." It is true that on this type of chart, which we use freely, the slope of the lines indicates the rate of change, but no percentages are either given or indicated.

Such percentages have to be worked out, as on any other charts.

The chart is quite as confused and difficult to read as you evidently found it.

Please ack to Mr. Gilbert & thank him.

B.S.

March 7, 1921

Governor Strong

Atlantic City Address

Mr. Snyder

I don't see why an address on world conditions as you found them would not be exceedingly interesting, or that it should needfully involve confidential matters. For example:

(1) Your impression of conditions in the Philippines; prospects for self-government, etc.

(2) The panic in Japan and conditions which brought it on; prospects for recovery.

(3) China under the new republic; what they are trying to do, the great difficulties they labor under, chances of success. What America could do.

(4) The crisis in Java and what produced it. Its repercussions in Europe.

(5) The great industrial awakening in India; prospects for self-government; development of manufacturing; the part which a nation of 400 midlions may come to play in international trade.

(6) The trade of the Levant. The great commerce that was developing in the ports of the East and the Black Sea when the war came on. Prospects of early reestablishment.

(7) Conditions in Egypt. Their great prosperity in the war and ensuing crisis like that in Cuba.

(8) Readjustment in Europe. Possibly a little word on the absurdity of the idea that the war meant any great capital destruction; that, on the contrary, the capacity for production of goods increased steadily and must be from 20 to 40 per cent. greater in Great Britain and Germany and the German territory, and even in France, than before the war. Prospects for a great revival of world trade and the ominous outlook for another tremendous rise in prices and world "boom" (if this fits in with your ideas).

(9) The tremendous enhancement of English prestige and power from the war, the great gain in her industries, her commanding banking position and her renewed grip on world trade.

(I think four hours would be sufficient to cover these subjects.)

March 8, 1921

Governor Strong

Mr. Snyder

The American Statistical Association is endeavoring to secure life memberships from a number of large corporations, banks and insurance companies, in order to promote a very useful programme ofinvestigations.

Mr. George E. Roberts, who is President of the Association, has written to Mr. Jay a letter expressing the hope that this bank may be one of them. I believe that the Bank of Commerce and a number of the large insurance companies have already agreed.

I enclose herewith a copy of the letter of Colonel Leonard Ayres to the Rockefeller Foundation, which secured a subscription from them.

I feel it is a very worthy cause, and I should be very glad if you could see your way to suggest to Mr. Jay your adherence.

March 15, 1921

Governor Strong   Impounding Gold

Mr. Snyder

You remember that the Federal Reserve Act, Section 7, provides that the Secretary of the Treasury, at his discretion, may use the surplus earnings of the Federal reserve banks, paid to the Government, to supplement the gold reserve held against outstanding greenbacks. At present that fund amounts to a little short of 153 millions, the odd three millions being realized from national bank circulation taxes, the balance from bond issues.

This leaves about 190 millions of these notes uncovered. It would probably excite very little attention if the Federal reserve banks were to anticipate their surplus earnings this year, and payments so made should be used in this fashion. It seems to me this would possibly be better than any of the four methods proposed, as far as it goes, because there would be a certain sentiment back of the idea of putting a metallic dollar behind all the greenbacks at last. Personally I do not see the objection to paying out gold certificates. That was precisely Prof. Sprague's suggestion from quite other reasons, viz., that the issue of Federal reserve notes ought to be restricted as it is in England, and that in no other way can the Federal Reserve Board have any real grip on the credit situation under the present law.

As things now stand it would require an absurdly high bank rate really to restrict the expansion of Member Bank loans, provided that there is no attendant demand for currency. The rate would have to be two or three times the market rate to have any very decisive effect, though it is admitted that the sentimental effect would be strong.

But if the banks are pressed by currency demands, and their rediscounts at the Federal reserve banks are paid out in notes, then, if the issue of notes is restricted, the power over loan expansion is sharp and prompt.

BANK PREMISES

A ske6

March 15, 1921

Governor Strong   Impounding Gold

Mr. Snyder

If we get another big boom out of the present situation, which is precisely what it seems to me is preparing, then we are going to have another big rise of prices and further bank expansion, and the only way that the Federal reserve authorities can stop it is a bank rate which will raise an outcry.

Paying out gold certificates would obviate all this.

Furthermore, if we get new gold, why not put it into circulation directly instead of keeping it where, at a pinch, we could issue two and a half times as much currency against it. The whole idea of impounding is that we have got too much currency now. The plain fact is that we have not got an elastic currency system now at all, because elasticity implies power to contract. And that now seems lacking.

There is an inevitably tendency more or less to standardize loans, and prices, near to the limit of the available gold supply. This bankers do unconsciously, and if we have a secondary gold reserve I fear, as you do, that the inhibition on further expansion will be very slight.

If, on the contrary, the gold is paid out into circulation, it is potentially there to recoup our supplies, if the necessity some years hence should arise.

BANK PREMISES

A,ske6

March 16, 1921

Governor Strong

Mr. Snyder

You may have already noted a paragraph in Mr. Roberts' report from Naumburg as to the amount of returned commercial paper in proportion to sales--as the highest in the firm's experience of twenty years.

Does not this seem to confirm the belief that the banks have not and are not following Bagehot's 'golden rule of banking,' viz., that they shall loan freely in a crisis, at a price?

I cannot get away from the feeling that this is the root of the whole difficulty we are now experiencing, viz., that the banks have themselves largely created the predicament they now face, of carrying what are practically insolvent customers.

Obviously it is one thing to check loan expansion when it is going too fast and there is obvious danger, and refusing loans in a crisis. I do not know if the situation is being any better handled in England this time than in this country. But it is a very remarkable fact that up to the war period England had had no major crisis since 1866. In the preceding forty years it had had four. Bagehot's book appeared in 1873, and, if I recollect, the reversal of the Bank of England's declared policy followed shortly thereafter.

Haven't we something to learn? And if about last November, when the crisis was fairly on, the banks had announced that they would lend freely, although at a high price, would it have gone so far and as disastrously as it has?

March 28, 1921

Governor Strong

Governors' Conference

Mr. Snyder

I cannot help feeling that the most important problem facing the Federal reserve banks and the Board now is that of definitely formulating some plan of action with regard to a new wave of inflation, providing it should come, as I am sure a great many intelligent people now believe. A prediction of just such a renewed wave, from an English source, is quoted in this morning's Wall Street Journal. It is almost impossible to imagine that so violent a fall in wholesale commodity prices will not be followed by an equally violent rebound. Such a rebound will give a renewed impetus to business and speculation, and almost inevitably bring about another banking crisis.

We have had in the last year the most thorough liquidation of the stock market, probably since 1907. It is almost the universal report of the brokers that speculative loans are at the lowest point in long years, and the average of industrial stocks at their low point was just about at the low point for these stocks in 1918. There is every indication now of a prolonged bull market in stocks.

Factory production has been more sharply curtailed in the last six months than probably any time in a generation. This is almost certain to lead to a shortage of goods in many lines next fall or winter. A general revival of industry would almost certainly bring about another wave of speculation in oil, real estate, and all the rest.

The question is: What are the Federal reserve banks going to do about it?

Personally I do not believe that any bank rate which would be regarded as reasonable or which would not incur very wide criticism would be any serious check to such a renewal of speculation. As long as the Federal Reserve Board undertakes to protect its gold hoard and to permit the practically unlimited issue of paper money, it can have no effective control over the credit situation.

MISC. 4-90M-12-19

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 7, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

Here is an interesting article on a really interesting phenomenon. I have yet to find in French or German a single clear-cut exposition of the cause of the fall of their exchanges. And even in England, the land of sound economics, there are only a few, like D'Abernon, to tell the blunt truth. But is it much better over here?

MISC. 4-90M-12-19

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 26, 1921

TO Governor Strong

FROM Mr. Snyder

SUBJECT: Index of Prices in France in the Napoleonic Period

We have combed the libraries here for any authentic index of prices in France in the Napoleonic period. We have a lot of detached prices, but I am wondering if somewhere there does not exist a real study of this period. Could I write to someone in the Bank of France, and could you suggest me a name?

MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 28, 1921

TO Governor Strong

SUBJECT: Increase of Time Deposits

FROM Mr. Snyder

The rapid growth of time deposits in the banks of the Federal Reserve System does not lead to as large a change in the reserve requirements, were time deposits to bear the same reserves as demand, as would at first sight appear.

Even if the whole of the time deposits in the system were converted to demand deposits, this would have led to a reduction in the reserve percentage, for example as of last December 29, only from 42.7 per cent. to 41.6 per cent. The computation is as follows:

Taking the figures for December 29 last (the latest available dates) and adding an extra 10 per cent. on the time deposits of the central reserve city banks, 7 per cent. more for the other reserve banks, and 4 per cent. more for country banks (i.e., making the reserves 13, 10 and 7 per cent. respectively), the result is:

Extra reserve for central reserve city banks	$59,562,500
" " " other reserve city banks	133,473,410
" " " country banks	147,421,320
Total extra amount required	$340,457,230, or 19.8%

They were carrying on that day $1,763,424,000

I compute that they needed to carry that day	$1,722,832,000
Estimated amount required	$2,063,289,230
Total liabilities of F. R. banks as thus estimated	$5,263,186,000

Estimated reserve percentage 41.6 per cent. compared with actual percentage that day, 42.7 per cent.

You have asked for the effect if the percentage of time deposits remained the same in 1920 as at the end of 1914.

The computation is given on the attached sheet from Miss Schutt. You will see that the additional reserves required would amount to only a little over 6 per cent. above the present required reserves; which is not a great difference.

What I had in mind when I pointed out the remarkable growth of time deposits was that this seemed to represent a real increase in the available fluid capital for use by the banks. If, as seems to be the case, the large part of this growth is due to the rapid increase of savings banks accounts, it is not a matter calling for correction.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 28, 1921

TO Governor Strong

SUBJECT: Increase of Time Deposits

FROM Mr. Snyder

2

The real evil, if there be one, seems to have been rather the change in the Act of June, 1917, reducing the original requirements from 18, 15 and 12 to 13, 10 and 7 per cent. Whether this was a misguided action or not, it was certainly most inopportune as it turned out; for it paved the way for the larger part of the post-war inflation.

MISC 3

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

Date April 28, 1921.

To Mr. Snyder

Subject:

From K. M. Schutt

Proposition:- Assume ratio of time to net demand deposits * in December 1920 was same as for national banks, December 1914.

Percentage of time deposits to total 1914		17.3 °
" " " " " " 1920		26.0
	Difference	8.7

The absolute figures for 1920 would be:

(In thousands)

	Computed	Ratio of time to demand	Actual	Ratio of time to demand	Difference
Time Deposits	4,115,780	20.9	6,187,921	35.1	2,072,141
Net demand deposits	19,674,857		17,602,716		
	23,790,637		23,790,637		

This difference would be made up as follows:

Central reserve cities	198,926,000
Other reserve "	638,219,600
Country banks	1,234,996,000
	2,072,141,000

The difference in reserve on these amounts would be:

10% on 198,926,000	19,893,000
7% on 638,216,000	44,675,000
4% on 1,234,996,000	49,400,000
	113,968,000

I compute that under present conditions they needed to carry	1,722,832,000
Additional reserve required	113,968,000
	1,836,800,000 or 6.6% additional over present.

Looked at from the standpoint of the Federal Reserve banks, if the earlier ratio of time to demand deposits of member banks had prevailed in December 1920, the total liabilities of reserve banks would have been $5,036,700 and the reserve percentage would have been 44.7 instead of 45.4.

- -

*Mr. Riddle's figure for national banks is the ratio of time to demand, not net demand, deposits.

° Ratio of time to net demand 20.9 $= \frac{20.9}{120.9} = 17.3\%$

MISC. 4-90M-12-19

FEDERAL RESERVE
BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 2, 1921 192

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

We have been in hopes that, with the incoming of the new Administration, it might be possible to secure more dependable and consistent figures in the returns and reports of the Comptroller of the Currency, as regards national banks.

We have also been thinking that it might be possible to make up a simplified statement of the returns of not only the national banks but the Reporting Member Banks and the annual statements for all banks; and a suggestion for such a form is attached herewith.

I should like very much to go over this form with you.

MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 2, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

An organization is to be made at a meeting in Washington next month, of a Stable Money League. It is committed to no plan, but is to investigate any method for securing a more stable price level. The organization committee is headed by seven ex-presidents of the American Economic Association, and a large number of other economists, solid business men, some bankers, and others.

It is much on the order of the Sound Money League recently organized in England, with Lord D'Abernon (Sir Edgar Vincent) as President, and it is proposed to make someone like ex-Secretary of the Treasury Houston Chairman or President.

There seems to me little prospect of obtaining any action by Congress in the next five or ten years, even if a definite plan should be agreed upon; but I do believe very thoroughly in any high class organization which will carry on the work of popular economic education. I have been interested in this subject for many years and my name has been put down on the committee.

Is there any objection?

May 6, 1921

Governor Strong

Rand Library

Mr. Snyder

I have seen Mr. Rand's library this morning, and my feeling about it is that it is more especially a collection for a statistician in railway finance. He has Hunt's Magazine and the Chronicles, etc., which are valuable and interesting. But the most of it has to do with railroads. It would be quite impossible to decide on the value to us until we know whether we get the American Bankers Association library. But even if we do not, it does not seem to me that the collection would be worth even a quarter of the price he suggests, because it is not especially the type of thing we need.

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 9, 1921

TO Governor Strong

SUBJECT: Chart on Commodity Prices

FROM Mr. Snyder

Mr. Jay wondered if you had seen the attached chart. We have a hundred or more of all sorts, any time you would like to look them over.

Very interesting

BS

May 13, 1921

Gov. Strong & Mr. Jay

Mr. Snyder

Lectures at New School of Social Research

Prof. Wesley C. Mitchell will not be able to give his course on "Business Cycles" next year at the New School of Social Research, and has asked that I give the course in his stead. It is quite out of banking hours and more or less concerns the sort of thing we have been doing a good deal of here. But before I consider it I should like to know if there would be any reason whatever why it might be better to decline it.

The Leading Business Man's Paper
Daily, except Sunday

Th

VOL. 111—NO. 8,478. Entered as Second Class Matter at Post Office, New York, N. Y.

RAPID BUSINESS RECOVERY AND PRICE TURN IN SIGHT, SAYS MELLON

Economic Pendulum Ready for Upward Swing to Prosperity, Secretary of Treasury Believes.

HIGH BANK RATE PERIOD ENDED, HE INDICATES.

Improvement Here Should Benefit European Countries, Thus Aiding Debtor Nations to Pay America—No Ban on German Reparations Bond Sales Here.

(Washington Bureau of The Journal of Commerce.)

WASHINGTON, May 16.—Probably the worst of the economic reaction of the country has been passed, with every indication now existing for a rapid business recovery and the advent of more prosperous times, according to the views of Secretary of the Treasury Mellon as expressed in discussing the business outlook to-day.

Secretary Mellon frankly announced himself as predicting more favorable conditions for the immediate future. Prices generally, the Secretary said, undoubtedly have reached their lowest level and much lower values are highly improbable.

More probably, he said, the economic penduum is ready to take an upward swing, carrying with it several years of prosperity for the country after the past two years of business difficulties and readjustments incident to the transition of the country from a war to a peace time basis.

Certainly, the Secretary indicated, the period of high reserve and bank rates has passed. Notwithstanding the general reduction in rediscount rates from a 7 per cent to a 6½ and 6 per cent level within the past few weeks, Secretary Mellon expressed the opinion that subsequent reduction to even lower levels may be expected during the summer as business and financial conditions continue to improve and warrant the relaxation of high money rates.

Improvement in economic conditions in this country and the better condition of the exchange market, the Secretary agreed, should have a beneficial effect upon the economic structures of the principal European countries.

The recurrence of improved financial and business conditions in Europe, it was said, might affect the ability of the countries indebted to the United States on account of war loans to repay the advances and thus exert a marked influence upon forthcoming negotiations between foreign financial representatives and the Treasury in arranging for the funding of the foreign indebtedness of the country.

In response to a question concerning the Treasury's policies on the sale of German reparations bonds in the United States, Secretary Mellon indicated that the Treasury probably would not interpose any objection to the sale of the securities in the domestic investment field, especially if the securities were transmitted to the United States through friendly channels.

Objections of the Government to the sale of foreign securities in the United States during the war period, because of the important governmental financing programmes under way at that time, Secretary Mellon said, no longer exist. In view of the fact that foreign issues of various kinds are being marketed in this country without objection of the Treasury, it is not probable that any special objection will be made to the sale of German reparations bonds here if the securities are offered for sale in the United States.

SOCIALISTS AND CATHOLICS LOSE IN ITAL...

WOULD PUT EMBARGO ON PULPWOOD AS ANSWER TO U. S. FARM TARIFF

OTTAWA, May 16.—Proposals for either an embargo or heavy export tax on pulpwood were made in the House of Commons to-day by T. W. Caldwell, an Agrarian member from New Brunswick.

The policy of the United States in discriminating against Canadian farm products will cause the people of Canada to advocate this course, Mr. Caldwell said.

The United States depends upon Canada as her main source of pulpwood, he added.

COMMITTEE HEARS NEW TAX PLANS

LEVY ON EXCESS PROFITS IS DEFENDED.

Representatives of Motor Industry Oppose "Stigma" Tax and Declare Against Any Increase in Burdens Now Being Carried.

WASHINGTON, May 16.—The Senate Finance Committee was swamped at hearings to-day with suggestions for revision of the Federal tax laws. It heard for the first time a vigorous defence of the excess profits tax as well as pleas for reduced taxes and elimination of alleged discriminatory provisions against business.

C. C. Hanch of Indianapolis, and George M. Graham of Buffalo, speaking for the National Automobile Chamber of Commerce, were the chief witnesses from the industrial ranks, and urged removal of the excess profits, luxury, excise, transportation and consumption taxes.

Defends Profits Levy.

H. Archibald Harris, of Chicago, a certified public account, was the champion of the excess profits tax and his stand proved a surprise to committee members, several of whom said they had felt the sentiment throughout the country was practically a unit for repeal of that section of the laws. Mr. Harris also urged exemption of corporation dividends from personal income surtaxes.

Frank E. Seidman, of Grand Rapids, Michigan, took still another tack on the profits tax question, suggesting a tax on undistributed earnings of corporations to make good losses caused by repeal of the profits taxes. He proposed taxes similar to the graduated rates on personal incomes as the proper method of dealing with undistributed earnings.

Attempts of officials during the war to differentiate between essential and non-essential industries has left bad spots in the nation's commercial life, Mr. Graham said.

"We cannot feel," he added, "that the motor cars and motor truck industry and

(Continued on Seventh Page.)

SUPPLY MEN'S HEAD SEES GOOD FUTURE

CONFIDENCE IS NOW BEING RESTORED, SAYS MORGAN.

Situations Thought Unsolvable A... Being Cleared—Action of St... Corporation in Maintainin... Price Levels Is Praised.

(Special to The Journal of Com...

ATLANTIC CITY, May 16.-... annual address Crannell Mo... Akron, Ohio, sounded an optim... together with the predicti... country is drawing neare... of brighter busin... seen fo... se... com...

try, according to Howard W. Adams, representative of the Department of Commerce in Berlin. Business in this line has, as a result, experienced a severe wave of depression. According to reports, only a third of the factories are fully employed; another third of the plants are limiting their operation to part time work, while the remainder have been forced to close down. The export business appears to have fallen off considerably, this situation being ascribed to the overstocked condition of foreign markets.

The 50 per cent export tax demanded by the Allies brought sales to England, France and Italy to a complete stop, the German Government refusing to reimburse German manufacturers to the amount of such export charge. The leather glove manufacturers could not see their way clear to bear this charge alone. Another factor contributing to the present unsatisfactory condition is found in the existing high price of raw skins and other materials which, it is felt, must experience further declines. The manufacturers believe that the only prospect for a restoration of their business to a healthy basis lies in a considerable reduction in the price of this commodity and the adjustment to a more equitable basis of the various taxes and other charges which affect this industry.

PACKER HIDES FIRMER.

...s Well Cleaned Up to April— Dry Hides Improving.

...market for city packer hides has ...up appreciably the past few days, ...bulk of the old skins, has been ... up to April. It is said that a ...e sales have been made, but ...e lacking. Dry hides are at- ...ore attention in the local ...ling buyers are unwilling ...of 12c for Bogotas. ...and Central ...still ...old-

Barquismetes	26½a ....
Laguayras	21½a ....
Peruvian	40 a ....
Oaxaca, first selection	50 a ....
B. A. Cardobas	30 a ....
Brazil, first selection	65 a ....
Rio Hache	25½a ....
Maracaibo	22[illegible] ....
Payta	40 [illegible] ....
West Indian, Haytian, etc.	35 a ....
Bogota	65 a ....
SHEEPSKINS—	
Peruvian (wool)	7 a 9
do (slats), per dozen	40 a 50
Chilean (wool)	10½a ....
do (pickled), per dozen	4 00 a 5 00
Punta Arenas (wool)	18 a ....
Brazil Cabrettas, each	50 a 55
Cent. Amer. Cabrettas, each	20 a ....
West India Cabrettas, each	30 a ....
CALFSKINS—N. Y. City—	
City, 9 to 12 lbs	2 20 a 2 25
City, 7 to 9 lbs	1 95 a 2 10
City, 5 to 7 lbs	1 70 a 1 80
... 9 to 12 lbs	1 75 a 1 85
[illegible]	1 35 a 1 60

MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 17, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

Does office make politicians of them all?

It looks to me as if things were being staged for another wild West boom, which might get well under headway by a year from now and reach a tolerably high level in the political campaign for the election of a new Congress in the fall of next year. That does not make a very good prospect for high discount rates, or any other kind of "brakes," or attempts to "throttle prosperity." In other words, are we not in for another huge inflation, and another crash in about November, 1923?

In other words, is this sort of thing going on indefinitely?

Who Can Say ?

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 18, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

This memorandum to Mr. Jay deals a little more explicitely with the question of how to meet the effect of a huge redundancy of gold. So far, I have been unable to see any other way that would not meet with vitriolic attacks in Congress.

MISC. 4. 1-120 M-1-20

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MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 17, 1921

TO Mr. Jay

SUBJECT: Mr. Miller's memorandum on Federal Reserve Policy

FROM Mr. Snyder

Attached is Dr. Miller's brief memorandum. His view of the Reserve Board's attitude at various times is certainly widely at variance with that of an ordinary outsider, watching the proceedings.

But as to his specific proposal, it seems to me that it is entitled to very careful consideration. This is, as you recall, essentially also Prof. Sprague's proposal, and it embodies also the doctrine enunciated in the Cunliffe Committee report, from which Mr. Miller quotes, and from which, as I understand it, he derived his idea.

It seems highly possible that political, as well as financial and business reasons might make it very difficult to maintain a high discount rate in the face of a fairly good reserve bank ratio. If the general level of prices should, in the next year, experience a considerable rise, that would tend to bring on a very strong revival of business activity, and, with the great influx of gold and the huge liquidation in bank loans which has already taken place, might readily bring on another big boom. This might very easily be in full swing along in the summer and fall of next year, and about the time of the campaign for the new Congressional elections.

It might prove very difficult to raise discount rates at such a time, and if they were raised earlier it would undoubtedly bring on a big protest that the Federal Reserve Board was endeavoring _again_ to "throttle prosperity."

So long as the issue of Federal reserve currency is unlimited, nothing short of a very high bank rate would have more than a very strong sentimental, or what might be called hortatory, effect. For example, if, as after the Civil War, interest rates should tend towards high levels, as in the last year or two, even a 7 per cent. bank rate would scarcely be of very much avail to check another great wave of inflation. Would it, in your judgment, be possible to get any higher rate than this, and would anything less than, say, a 9 per cent. rate be any very great restraining influence?

The only possible way that this could be done, apparently, would be through a radical reduction in the Federal bank's reserve ratio. This might be done through a large Government loan of gold abroad, or by various bookkeeping devices; but would not the intent be very obvious, and therefore nullify the effect of the action?

Personally, I do not see the objection to paying out gold certificates on rediscount instead of Federal reserve notes, and thus radically reducing the gold holdings of the Federal Reserve System. I cannot see the force of the objection that we may need all this gold at some future date. If gold certificates were paid out for popular circulation, the gold would still be here and could be gathered into the System again by the same methods as three years ago. For the rest, there is at present very little prospect of a very large gold outflow. The only way that such an outgo could be occasioned would be a very heavy increase in imports and a decrease in exports, owing to the fact that our prices in gold were much above European prices in gold.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 17, 1921

TO Mr. Jay

SUBJECT:

FR Mr. Snyder

But is there any present prospect for this? I can see almost none.

Europe has not learned its economic lesson, apparently, even to a small degree. Even up to the present time there has hardly a single voice been raised against the popular delusion that exchange rates are the result of unbalanced foreign trade or unbalanced government budgets, or of big government borrowing. There is hardly a single European statesman or banker to tell the people the simple truth, that the trouble with the exchanges is the amount of paper money issued, and nothing else.

So long as this condition obtains, it seems almost certain that there will be no serious deflation of European currencies and that, on the contrary, if our prices again undergo a great rise, they will tend to expand rather than contract these currencies, in order to obtain the needful goods for import.

A year ago I was not sympathetic to the proposal to limit the issue of Federal reserve notes, but at that time there seemed some little prospect that Europe would wake up from its paper money orgy and attempt to get back to a sane financial basis. I can see now very little prospect for this, even in England. In consequence, instead of losing a large part of our redundant gold supply, it is actually increasing, in the face of every reason to reduce it.

If all this useless and burdensome new gold is to be made the basis for the issue of more paper money in the United States, in the ratio of 2½ to 1, then it seems to me that we have almost no method that is now politically feasible, to check another huge credit inflation, with results as socially and commercially disastrous as those of the last two years.

It seems to me that the situation, from a year ago, has very considerably changed.

May 19, 1921

Governor Strong | Economic History

Mr. Snyder

Supposing the young man has had a year of Economics, Prof. Macaulay thinks that the three following would be very good:

Sumner's "History of American Currency"
Dunbar's "History and Theory of Banking"
Hartley Withers' "Money Changing"

His other suggestions are:

Cairnes' "Essays in Political Economy" (article on gold)
Laughlin's "Bimetallism"
Hepburn's "History of the Currency"
Jevon's "Money and the Mechanism of Exchange"

This is supposing, of course, that he has had Dewey's "Financial History of the United States," and has, perhaps, been through one of the standard books on Economic History of the United States, like Bogart or Callender. This list sounds a little heavy, but light reading in the field of finance, outside of Hartley Withers, is apt to be rather sorry stuff.

Might I suggest a bound volume or two of Mr. George E. Roberts' National City Bank circulars? They are available for the asking.

Also, Simon Newcomb's "Principles of Political Economy," which seems to me the clearest and ablest introduction to the subject I know of.

It seems to me that I read "Lombard Street" at not much past that age, and John Stuart a good while before.

Andrew D. White's little history of paper money in France is a little gem.

Would not a few interesting biographies like, for example, of Alexander Hamilton or Robert Morris, be a very good introduction and get his interest aroused?

MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 19, 1921

TO Governor Strong

SUBJECT: Economic History

FROM Mr. Snyder

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Books suggested to Alice Brandin Strong

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MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 23, 1921

TO Mr. Jay & Gov. Strong

SUBJECT: A. B. A. Library

FROM Mr. Snyder

I hope if you have time you can find occasion to inquire a little as to who or what put the crimps into the plan to give us the American Bankers Association Library. I gained the impression that Mr. Bowerman and the folks across the way were still heartily in favor of it.

May 23, 1921

Governor Strong

Mr. Snyder

Does this commend itself to you? Loans in all commercial banks, July 1 last year, were a little under 28 billions. The ratio of total gold to total loans at this time was about 14 to 1.

A similar credit structure on the present gold basis would rise to 35 billions and such a credit structure would carry the general level of prices at least 20 per cent. above the peak of last year, I should think, according to our calculations.

M1 3.1-200M-9-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 23, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

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For the "Business Summary."
May. 23.

THE CAUSE OF HIGH INTEREST RATES

Attention was drawn last week to the tendency which appears to exist for interest rates to continue high long after the direct cause, a heavy increase in the general price level, had been withdrawn. This was markedly true after our Civil War, when the tendency of commercial paper rates was distinctly upward from the close of the war, and, for that matter, practically from the beginning of the war, to as late as the panic of 1873.

In the various standard works on the theory of interest the cause of this long hold-over of high money seems nowhere very clearly explained. And one causal element which must be very strong seems to be quite neglected. This is very simply the need of increased capital, due to the higher price level. Obviously if, for example, the Steel Corporation needed liquid "working" capital to the amount of say a quarter of a billion before the war, it would require approximately twice this amount if the general average of prices be double. And the same is, of course, true for every business.

Now, the very fact that money is high makes it difficult to sell bonds or stocks at favorable rates. The natural tendency, therefore, is to resort to bank loans to make up the deficiency.

It seems almost unmistakably that this was one of the very strong causes of the tremendous expansion of bank credits which followed the Armistice.

Now, if this be true, and if relatively high rates are likely to prevail in the next year or more at least, then it seems doubly probable that the heavy liquidation which has been in progress since the late fall will soon cease, and, with the revival of the normal flow of trade, which should certainly not be much delayed beyond the coming fall or winter, a renewed expansion of bank loans will take place.

This is quite independent of the injection of nearly half a billion of new gold into the System since a year ago.

It is noteworthy that many writers and speakers continue to dream of a return to pre-war or "normal" levels of credit and prices. It seems little considered that a return, even to the credit levels prevailing at the beginning of 1919, after the Armistice, would mean a contraction in loans of over six billions. And to get back to the credit levels of 1913--what is popularly taken as "normal," would require a contraction of from ten to twelve billions, allowance being made for the increase in the volume of trade in this period.

The implication of high interest rates seems to be that, so far from any such ~~contraction~~ probability, that contraction which has already taken place will be rather quickly cancelled as business revives, and that very strong pressure will then develop to utilize the resources of the banking system to the same extent as in the first half of 1920.

At the peak last year, the ratio of loans in all commercial banks to the existing gold reserve was very nearly 14 to 1.

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At the peak last year, the ratio of loans in all commercial banks to the existing gold reserve was very nearly 14 to 1.

May 23, 1921

Governor Strong | High Interest Rates

Mr. Snyder

I do not find a reference to the idea of high interest rates, except for panics. These are on pages 39, 40 and 127, and the extracts are as follows:

"The management of the money market is the more difficult because, as has been said, periods of internal panic and external demand for bullion commonly occur together. The foreign drain empties the Bank till; and that emptiness, and the resulting rise in the rate of discount, tend to frighten the market. The holders of the reserve have therefore to treat two opposite maladies at once: one requiring stringent remedies, and especially a rapid rise in the rate of interest; and the other an alleviative treatment with large and ready loans.

"Before we had much specific experience, it was not easy to prescribe for this compound disease; but now we know how to deal with it. We must look first to the foreign drain, and raise the rate of interest as high as may be necessary: unless you can stop the foreign export, you cannot allay the domestic alarm; the Bank will get poorer and poorer, and its poverty will protract or renew the apprehension. And at the rate of interest so raised, the holders--one or more--of the final bank reserve must lend freely. Very large loans at very high rates are the best remedy for the worst malady of the money market, when a foreign drain is added to a domestic drain; any notion that money is not to be had, or that it may not be had at any price, only raises alarm to panic and enhances panic to madness. But though the rule is clear, the greatest delicacy, the finest and best skilled judgment, are needed to deal at once with such great and contrary evils.

"Nothing, therefore, can be more certain than that the Bank of England has in this respect no peculiar privilege: that it is simply in the position of a bank keeping the banking reserve of the country; that it must in time of panic do what all other similar banks must do; that in time of panic it must advance freely and vigorously to the public out of the reserve.

"And with the Bank of England, as with other banks in the same case, these advances, if they are to be made at all, should be made so as, if possible, to obtain the object for which they are made; theend is to stay the panic, and the advances should if possible stay the panic: and for this purpose there are two rules:--

"First. That these loans should only be made at a very high rate of interest; this will operate as a heavy fine on unreasonable timidity, and will prevent the greatest number of applications by persons who do not require it. The rate should be raised early in the panic, so that the fine may be paid early; that no one may borrow out of idle precaution without paying well for it; that the banking reserve may be protected as far as possible.

"Secondly. That at this rate these advances should be made on all good banking securities, and as largely as the public ask for them. The reason is plain: the object is to stay alarm, and nothing therefore should be done to cause alarm; but the way to cause alarm is to refuse some one who has good security to offer. The news of this will spread in an instant through all the money market at a moment of terror; no one can say exactly who carries it, but in half an hour it will be carried on all sides, and will intensify the terror everywhere. No advances indeed need be made by which the Bank will ultimately lose. The amount of bad business in commercial countries is an infinitesimally small fraction of the whole business; that in a panic the bank or banks holding the ultimate reserve should refuse bad bills or bad securities will not make the panic really worse,--the 'unsound' people are a feeble minority, and they are afraid even to look frightened for fear their unsoundness may be detected. The great majority, the majority to be protected, are the 'sound' people, the people who have good security to offer. If it is known that the Bank of England is freely advancing on what in ordinary times is reckoned a good security,--on what is then commonly pledged and easily convertible,--the alarm of the solvent merchants and bankers will be stayed; but if securities really good and usually convertible are refused by the Bank, the alarm will not abate, the other loans made will fail in obtaining their end, and the panic will become worse and worse.

"It may be said that the reserve in the Banking Department will not be enough for all such loans. If that be so, the Banking Department must fail; but lending is nevertheless its best expedient,--this is the method of making its money go the farthest, and of enabling it to get through the panic if anything will so enable it. Making no loans, as we have seen, will ruin it; making large loans and stopping, as we have also seen, will ruin it. The only safe plan for the Bank is the brave plan,--to lend in a panic on every kind of current security, or every sort on which money is ordinarily and usually lent. This policy may not save the Bank; but if it do not, nothing will save it."

May 24, 1921

Governor Strong

Mr. Snyder

I'd rather like to have just a word with you before you go to Washington, regarding the idea of something in the way of a foreign service and better foreign information, about which Mr. Morgan spoke to you some little time ago.

Apparently the matter is to come up this week with the Board at Washington. I am rather keen to get over on the other side this summer, perhaps in connection with the Chamber of Commerce meeting, and see if we could not make a start on better production figures in the major industries, and rather better current financial statistics than seem now available.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 1, 1921

TO Governor Strong

SUBJECT: Prof. John H. Williams

FROM Mr. Snyder

Letter of May 29, 1921

I have at last received an answer from John Williams, who wrote the article on "Foreign Trade Balances" with Mr. Vanderlip, that he would be unable to come here and take up this question further by means of a questionnaire, as you suggested.

I wrote him nearly three weeks ago and again a week ago. Having offered it to him, I did not feel like going ahead until I had had a reply.

You will note that he finds his estimate of the export balance "dwindling considerably," and at last accounts it was already only half that of Mr. Anderson's estimate.

Mr. Anderson advises me by telephone that his estimate (privately) is now 5 billion instead of 3½ billion, i.e., his estimates rise as Prof. Williams' fall.

I should like to bring down in the morning the letter to go out as a questionnaire.

Let me see letter before mailing

B.S.

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 2, 1921

TO Governor Strong

SUBJECT: Request of Hon. Basil P. Blackett

FROM Mr. Snyder

Practically everything Mr. Blackett asks for is published in the Federal Reserve Bulletin, and in Bradstreet's, Dun's and the newspapers. So it does not seem as though there was any especial need for referring the matter to Washington. I have, therefore, drafted a reply, which I attach herewith.

K

TELEPHONE: GERRARD 508.
TELEGRAMS: FOLLOWING, ESTRAND, LONDON.

ACKNOWLEDGED
JUL 14 1921
B.S.

NORFOLK HOTEL,
SURREY STREET, STRAND.
LONDON, W.C.2. July 1 1921

PROPRIETORS: LAW LAND BUILDING DEPARTMENT LIMITED.
30, NORFOLK STREET, W.C.2.

Dear Governor Strong:

I am enclosing a brief report, just a resumé of opinions.

Prof. Chandler who is here for the Nat. Bank of Commerce, does not get as optimistic impression; but he has the same feeling as regards our own country.

Thanks to your letters, and others, I have had some very interesting

TELEPHONE: GERRARD 508.
TELEGRAMS: FOLLOWING, ESTRAND, LONDON.

NORFOLK HOTEL,
SURREY STREET, STRAND.
LONDON, W.C.2. ______________ 19____
PROPRIETORS: LAW LAND BUILDING DEPARTMENT LIMITED.
30, NORFOLK STREET, W.C.2.

conversations; and the views here given represent a week or more of rather strenuous interviewing.

I took Mr. Geo. Roberts with me to see Gov. Norman, and shall see him again on Monday.

If it is of sufficient interest, Mr. Burgess could have the enclosed mimeographed for the directors.

May I add a word of very sincere

TELEPHONE:
GERRARD 2808.
TELEGRAMS:
FOLLOWING, ESTRAND, LONDON.

NORFOLK HOTEL,
SURREY STREET, STRAND.
LONDON, W.C.2. ________ 19__
PROPRIETORS: LAW LAND BUILDING DEPARTMENT LIMITED.
30, NORFOLK STREET, W.C.2.

appreciation of all your kindness, and your patience when, perhaps, your views were rather different from mine!

Everyone asks after you, and hopes you keep in good health.

I wish I had half your friends!

Sincerely

Carl Snyder

RECEIVED
GOVERNOR'S SEC'Y
JUL 13 1921

Sunday. June 26.

TELEGRAMS: MITRE, OXFORD.
TELEPHONE No. 335.

MITRE HOTEL,
OXFORD.

Dear Governor:

I came up here yest. to see Prof. Cannan, and today wandering round these old cloistered gardens, in a little old Norman church — St. Peters in the East. if you know these precircle, I came across a bronze tablet to

John Stronge
obit, 1623.

The Latin was dim but he seems to have been a man of parts.

An ancestor—?

Bad Gastein, Austria
Aug 4.—

So far a month ago! I have often wanted to write you, in a more personal way, my impressions, & things I have heard.

I have had a wonderful trip, a little too strenuous, & very hot—seen a great number of very interesting people, and reached a pretty definite conclusion.

It has been worth every-thing to go over the ground oneself, to see the countries with your own eyes, & talk with the people.

Now I am up here for a few days relief from the heat, before I start back.

I shall have much to talk to you about when I get back. I think our bankers have a great opportunity to help Europe, & thereby ourselves also, if they would go about it in the right way. And the Federal Reserve Bank could show them the way.

I hope you've had an enjoyable summer.

With best greetings

Always

Carl Snyder

Hon Benj. Strong,
Governor.

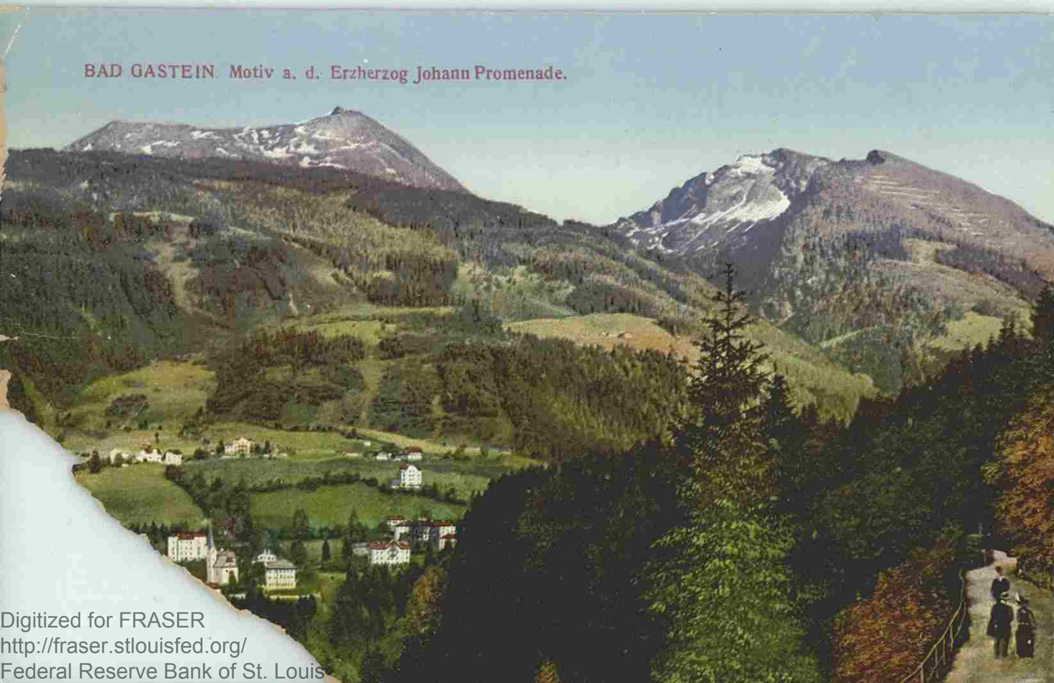
Badgastein - Aug. 4.

Do you know this enchanting spot? I have never found anything lovelier in all Europe. We came up here almost by chance, to get away from the dreadful heat in Prag and Vienna. All Central Europe has had the worst heat and severest drouth in 20 years. But in spite of this the crops outside of Russia, so far as I can learn, [illegible] good. — Here we have today [illegible] covering all the mou[illegible]

1914—675-6016

Nachdruck strengstens verboten.

M. Gessenhar[illegible], Bad Gastein.


BAD GASTEIN. Motiv a. d. Erzherzog Johann Promenade.

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 4, 1921

TO Governor Strong

SUBJECT: DARLING CARTOONS

FROM Mr. Snyder

These cartoons of Mr. Darling's are very widely syndicated and otherwise reproduced. Is it worth while having him down to lunch? I know him quite well. I presume he makes his home more in Des Moines than in New York, and I presume he was hitting more at the Chicago bank.

London.

First Report.

1st July 1921.

Arrived at Southampton a week ago Tuesday, I spent a day at Salisbury and round about; then up to London. I spent last week-end at Oxford and so have had a little chance to see both the city and the country, and the running of the trains.

The first thing that has struck me is the general atmosphere of cheerfulness in the face of the coal strike and all other difficulties. As Mr. Hartley Withers put it:- "Here we are in the midst of an apalling crisis, with several million men out of work, and no one seems particularly disturbed. So I suppose we shall muddle through in our usual way."

This was almost the tenor of a very first impression. Taking the train at Southampton up to Salisbury we asked the guard how the coal strike was going, and his fully characteristic reply was: "All goes merry and bright". That seemed the general feeling.

The train service is good, and on time, though a little curtailed, especially the express trains. Otherwise everything seems moving in a fairly ~~the~~ normal way.

As you pass through the country towns, you are struck with the amount of building that is going on; in the country districts chiefly residential. This is in part due to the Government's Housing operations; but I think not all.

In London there is far more building going on, especially along the main thoroughfares, than I have ever seen in the last 20 years and more - in fact nothing like it. Far more than in New York. Everywhere the streets are torn up, and many fine buildings are in course of construction.

This gives everywhere a general look of prosperity, and that is the feeling you get from the people as well. There has been relatively little reduction in retail prices in England as yet, not nearly so much as with us. In London, hotel prices and everything that a tourist pays are almost fabulously high, and everything crowded and jambed to the limit. Traffic in the streets and on the railways is very heavy, lines wait for buses and you must go to stations in good season to get seats on the trains.

A much travelled friend of mine just back from the Continent and only recently in New York gives it his impression that: "London is now the dearest city in the world". You certainly get that impression.

The bankers and city people seem generally cheerful, and, on the whole confident. It is evident that the crisis of last winter was not nearly so severe here as with us. The banks seem in sound condition and ~~no one~~ very few apprehensive of further difficulties.

Governor Norman remarked that: "We shall probably have a hard autumn, but after that things should improve".

This seems the general feeling. The one exception I have found so far is Mr. Reginald McKenna who seemed to me rather professionally pessimistic. He is of course very strongly opposed to the present Government, and can see no good until it is ousted. From Mr. McKenna I received the most interesting point I have so far obtained regarding the question of loan expansion and contraction.

This was that the expansion at least, and to some extent the contraction, is under the direct control of the Government, because it is through them alone that the bankers can obtain more cash or currency, on which to posit loans. It would be impossible here for the banks to borrow at the Bank of England heavily without running the bank rate up sharply and quickly.

The process is directly the reverse of our own where the Banks are in a position to force expansion to the last limit without fear of any very high bank rate. In the same way as the Government ways and means advances decrease, and the Treasury bills also, the amount of currency outstanding would likewise decrease, and this if carried far enough would force a contraction in bank loans. I find that most of the English bankers are still keeping to their traditional methods, and while their reserve is low it is carefully watched.

There is naturally a very big interest in the question of exchanges and this I meet with wherever I go. I was very much surprised to find it already being widely discussed, at least, by such men as Brand, Keynes, Withers and the like, as to whether there should be any serious attempt now to get back to the old parity or whether it is better to attempt to stabilise now on the basis of something like existing rates.

Of course older men like Sir Felix Schuster are strong for deflation to the limit, and even back to "1913 levels". But among the younger men it seems very generally recognised that this is an entire impossibility and some, at least would favour Professor Cassel's scheme of immediate stabilisation at the status quo.

I went to Oxford to see Professor Edwin Cannan, one of the ablest of English economists and a man of some real influence. He describes himself as "a dear money man" and believes there should be still further deflation in wages, retail prices and so forth; and yet not even he seemed shocked at the idea of at least some temporary effort to fix exchange at prevailing rates.

Mr. McKenna of course is not at all averse to the idea and in general is opposed to the whole policy of deflation. Mr. Brand, the English partner of Lazard Frères is of an open mind. Sir Henry Strakosch, who organised the South African "Federal Reserve" Bank and who was very active in the Brussels Conference, is quite strongly opposed; but was extremely interested to discuss the whole question and considered the arguments in favour. Mr. Gardner at the head of the Overseas Bank, had I think the traditional bankers distrust of any idea of change.

But it is evident that there is a very strong party that would not be averse to a more liberal policy and even to some further inflation. I lunched yesterday with Mr. Brand, Sir Edward Craig, Lloyd George's Secretary, and Lord Robert Cecil. It was very evident that Mr. Craig was strongly for "some further inflation" if need be, and Mr. Brand thinks this accurately reflects Lloyd George's mind. Several have described the latter as "tickled to death" at the way the French and still more the Germans have in large part extinguished their public debt by heavy inflation, and would not be at all averse to trying the same thing on, in a limited way in England, if he could carry it through.

Yet I know that he has had several conferences recently with Professor Cassel, of Sweden, who is here attending the International Chamber of Commerce meeting, and who I find is everywhere listened to here with the very greatest respect, as one of the ablest minds of Europe. I have had several long talks with him; he feels very strongly that the huge takings of gold by the United States are a very serious menace to the equilibrium of international trade, and that something must be done to stop it or to neutralise the effect of it.

His position of course is that of stabilisation of exchanges at the status quo and without further thought of deflation. He argues that any attempt to bring back the world to the level of 1913 would breed every kind of social disorder as well as work the most serious injustice; that we must accept the consequences of the war and begin on a new basis. His view is that the most serious obstacle to the revival of international trade is the breakdown of exchanges, and that there can be no permanent prosperity until these exchanges are again fixed upon a permanent and common standard.

His view is that while trade may limp along with the present wild fluctuations and complete uncertainty, that all serious investment and long term loans between the countries are almost completely checked. He described the countries of the world as all severally stocked with their especial products and awaiting only a solid financial basis upon which to resume their exchanges of goods. Professor Cassel has an impressive personality, speaks with great force and I think it is fair to say that his views will gain increasing importance.

Perhaps this is enough to report for the first week. I go next week to Paris; but from a number of conversations with foreign representatives here and Englishmen like Sir William Goode representing this country in Austria, I have already gained the impression that there is a slow but steady revival of continental industry and that this is the most pro~~longed~~nounced in what was regarded as one of the blackest spots, namely in Austria. Governor Norman confirms this impression.

Taken as a whole I think there is no serious doubt of the view expressed in my first cable last Monday, that there is a very distinct improvement in general sentiment, a slowly growing feeling of greater confidence and an almost universal belief that if political difficulties could be solved the rest of the problem would be easy.

Whatever may be true of the Continental Governments, neither English nor Continental business is bankrupt but, on the contrary, seems in a far better condition than is generally believed in America. Certainly trade is stagnant, and there may be little improvement for months to come; but I have the strongest feeling

This view may not be general; and
that the course of business is upward and not downward. there is a wide division of ~~attainment~~ sentiment as to just the best way to go ahead; but practically nowhere have I found any serious belief, from any competent minds, ~~that they are~~ other than that they are going ahead.

I can check this impression better after a month of first hand investigation on the continent; but here at least I believe the best opinion is that basic conditions are fairly sound.

Carl Snyder

Second Report.
July 15, 1921,
Hamburg.

Dear Governor Strong:

I have been so much on the go, and meeting and talking with so many people that it has been difficult to find time, or rather the energy to get any impressions on paper, for talking the same thing with many people of many minds, I find rather strenuous work.

As regards England, there is not a great deal to add to my first letter. I feel I made some headway with Governor Norman and Mr. Trotter, on the idea of the Bank exchanging statistical information in a larger degree with us, and when I return there, I am hopeful of some action. Needless to say they were very friendly and seemed interested; and the Governor gave us one very large bouquet, that when he wanted any figures or statistics, he looked up our Summary!

As to general banking conditions, I am sure the general feeling is that they are fairly sound, as I said, and slowly growing better. They were overstrained, no doubt; but I am sure this was either not so great as with some of our New York banks, or they took it much easier, and have not given way to such an excess of caution at the wrong time.

In spite of their strain, the English banks still are lending freely on the right paper, even to Germany and the continent.

The consensus as to industry is that revival will be slow, but that it is definitely coming. Some are still very pessimistic, no doubt, but I think the more foresighted feel that basic conditions as to labor, taxes, etc. are improving. The government, so long as Lloyd George is there, will not curtail much. He does not believe in it, and in this he has a very large following, and even the approval of some of his strongest opponents. It is the bankers and the old school of economists, and remnants of another generation, like Sir Felix Schuster who clamor for "deflation" and imagine a return to a pre-war basis. Live England does not.

I had a long and most interesting talk with Keynes. He has been made Chairman of an Insurance Company and has begun to mingle in the City. Needless to say he is anathema to many but I find everywhere a great respect for his opinion. He is very cool, not impatient, and no propagandist. But he is very sure the English pound will never go back to its old gold parity, and in this he is beginning to have the support or tolerance of many able people.

Mr. Brand's view for example, is that they will soon appoint a new Commission on the Exchange and that this may very notably modify the policy laid down in the Cunliffe report. Lloyd George would look with favor and Keynes might be a member of this commission. Lloyd George has had several conferences with Professor Cassel on the subject; and seemed to favor his idea of no more deflation and stabilization on the status quo.

Keynes' idea is this will take about a year and a half or two years, and that they will, of course, not call it a "re-valuation" but simply "pegging" the pound. His figure is "about $3.50," and thinks at that figure they could go back to a gold basis.

It is exceedingly hard to get what is the present feeling of the Labor leaders, as they are badly divided, and have, of course, been badly defeated all along the line this year. My belief is that the more conservative elements will win out, because existing conditions of trade are all against the radicals. Their funds are running low, and there is beginning to be a report of real suffering among the unemployed.

This will steadily increase no doubt, even while trade is steadily reviving. This is always so. The two overlap. And it seems to be the brutal pressure of necessity and privation that makes the masses of men work hard.

But I am sure that in the war the general standard of living among the English workers was distinctly raised. They have become accustomed to more and better things, and they will work now to get them back. The English wage level or cost of production is probably still relatively high, as compared with ours, or Germany's, and may have to come down somewhat. German competition will be just as keen as before the war; it is already being felt, and there is a great outcry about it. And this will have one bad effect. It will tend to make the English less lenient towards Germany, and align more with France. And this will augment the bitter feeling that is now steadily growing in Germany.

But this is an old rivalry and it can only be settled in one way and that is by improved methods of production. Without this keen spur, I seriously think that English industry would be on the down grade, because in some of its basic lines, as in coal and steel, production costs have been steadily rising for some years. (I mean, of course, real costs and not just paper money prices.)

English crops this year may not be very large; but the land is being sold off to small buyers, the great estates being broken up, the crofter type thrown out, and a stronger class put in, who have a stake in the soil. English agriculture is backward, and no one can compare their farms with the rich fields of Germany, and not realize the great opportunity for intensive culture, as here.

The future of farming, I think it is clear, is to the highly fertilized fields,- for the soil that still may be mined and not farmed, is slowly disappearing, as the world's need grows.

Already German artificial nitrate can compete with the Chile product. One step more and all farming will be of the intensive type,- I believe even with us.

So I think the break up of the landlord system in England may, in this juncture, prove a great step to the country.

For the rest, it will doubtless go more and more to banking, capitalizing shipping and buying and selling. And in the first of these, in banking, its primacy is still very clear. English bankers seem to feel that we do not understand world banking; we have not the traditions; and I believe this is the general feeling among continental bankers. I imagine they have felt a real disappointment in the way our banks have quite failed to take an international view.

Is this in part the effect of our neglect of branch banking, and the lack of training our bankers have for any save mostly local needs?

I spent five hectic days in Paris. It is a tourist horror. The whole city is jammed to limit - hotels, restaurants, railway trains, taxis, and shops. It is as if all the spenders of the earth had concentrated there. London seemed bad enough, but Paris is the last gasp of "Squander o mania."

And it is especially the most luxurious places that are crowded, as if people were ashamed not to spend to the limit. And of course this has its natural effect on Paris and on France. Paris is overflowing with prosperity. You have only to note the tide of travel. Even a suburban train, of which there were three an hour, in which I rode was of astonishing length and crowded.

The sleeping car service is, of course, not so highly developed but it is crowded and must be booked days ahead, like the hotels.

And the same everywhere; from Cologne here the train ran in two long sections, to accommodate the crowds of <u>third</u> and <u>fourth</u> class; the same way from Paris to Cologne, through sleeping cars of twenty to twenty-five third class and second class coaches, all crowded. It is not merely the rich who have the spending craze.

Europe is still afloat in its paper money jag. I think it will, if need be, inflate more to keep it going. The return to what we call sanity will be slow. And if the net effect of this paper jag has been to increase comfort of many millions, where it has not been carried too far, I am not sure that we may not have to some extent revise our ideas as to what is the policy of greatest good.

When I have seen the extreme in Austria, I may have a different idea; but <u>Germany</u> in this section, seems not unprosperous: and so <u>does</u> France, for now.

On this, more in my next letter. With best respects,

(signed) CARL SNYDER.

(It is very hard to find an English stenographer here, so I have had to write this by hand)

Second Report July 15, 1921

Hamburg, Germany.

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On this, more in my next letter. With best respects,

(Signed) Carl Snyder

Leipzig, July 21. 1921

Dear Gov. Strong:

I have now seen a good deal of Germany, from Aix-la-Chappelle to Cologne, to Essen, (the Krupp works), to Hamburg, to Berlin, to Halle, and here; and I think I am now in a position fairly to guage its industrial situation.

I begin with the most striking fact, its general price level, measured in exchange, ~~that~~ this is distinctly below that of France, England or America. I said that prices in London and Paris, in the things that tourists buy, were, at current exchange, rather higher than in New York. With Sterling at \$4.00 & francs at 8 & over, they were clearly higher.

But so far as one can guage it, the general price level, which means both wholesale & retail prices, wages, salaries, rents & all, of the three countries, is, at the average exchange rates of the last year, substantially the same. That is, a dollar

2/ converted into sterling or francs, indifferently, would buy about the same quantity of goods and services the year through, in England or France, as it would in the U.S.

Broadly, the price levels of the three countries swing together, and the exchange, over a sufficient period, exactly measures the difference in the purchasing power of the several currencies. This was why, for example, sterling at ~~4~~ 4.78 was "high" or "dear", & had to come down as it has, if goods are to be freely exchanged.

This is not true of Germany. The mark is heavily undervalued. For example:

This morning, in the hotel here, ~~in~~ one of the best hotels in Europe, I pay for my usual breakfast of coffee, rolls and jam, & 1 egg, 13 marks; at current exchange about 18¢.

For a large double room, two

beds, and unusually large bath, I pay for two people, 200 marks, or say $2.70.

An hours drive around town last night, 25 m. or 33¢.

My morning paper 30 pf. or ½ ¢.

An excellent dinner last night in one of the famous students restaurants — roast goose, salad, potatoes, cauliflower &c, and two large steins of wonderful beer, — 63 marks, or say 90¢.

In Berlin not much more. Cabs in general cost 8 to 10 times the meter showing. You ride a mile for say ~~25~~ 16 ¢.

In Berlin my wife bought linen in the best stores, at what she estimated would be just about ½ what she would pay at McCutcheons in N.Y. And so everywhere you go.

Land, and rents are kept artificially low, by the rent laws and the enormous cost of building (here as with us!) And railway fares

4/ are about ½ what they should be, on a level with other prices. (This is partly political). For example, Hamburg to the North sea resorts, 5 hours, 3rd class, excursion at about ½ rates, 30 marks or ~~50¢~~ 43¢! — Ten trains a day moving 8000 people a day steadily for 3 weeks already or over 150,000 people, & the season only begun. This is of course, simply a subsidy.

... In a word, general prices in Germany have risen 8 to 12 times, with a fair average of about 10 times. Many articles like steel 15 to 25 times; wholesale prices near to 15 times perhaps: retail prices not over 10, I should say; wages are estimated at 8 to 10. Ry freights about 6 times & so on.

And at this level Germany is as I said, fairly prosperous, or at least unusually well employed, and I think now fairly well fed.

3/

(It never was, at its apex 8 or 10 years ago, very well fed, in the American, or even the French sense.

(Now consider German prices rise about 10 times, where ours about double, as nearly as any one can estimate.

Hence the relative value of the mark, in gold, in actual purchasing power, is about 3 or 6 to 1 to former parity, i.e. is "worth" $\frac{1}{6}$ or $\frac{1}{5}$ what it was, in gold.

Present exchange rate is near 1 to 17, in gold; so that in gold, the present value of the ~~500~~ mark is not over 40 % of its purchasing parity; 50 % at the outside.

~~This I think~~

By this, I mean that a dollar in Germany, at current exchange will buy roughly 2 to 2½ times

6 what it will in England, or France, or the U.S.

This is of course not true of the main articles of export, where the average of prices, in gold, is undoubtedly much higher, possibly 30%. higher, at a guess. But it still remains that even the export price level is far below that of England or France, or our own, or was, at least last year. Not so much so now, of course.

And the explanation of this extraordinary situation I find very difficult. There are many answers. First, up to recently, many prices have been kept down by edict, food &c. Next, there have been, up to now, real difficulties of transport. And undoubtedly there has been a real shortage of production. Almost all the available figures show this clearly.

But the main fact, as I see

it, has been but little touched upon. That is the real industrial and commercial paralysis in Germany that came with the war's end, and the Revolution.

Germany was then at about the half way stage to Russian sovietism, i.e. to complete break-down.

No other country apparently was so highly geared to a war basis as Germany. Apparently it fought the war to almost complete industrial exhaustion. It could not have gone on.

So, when the end came, it presented the extraordinary situation, of a land, so to speak without a war ruin, untouched visibly or outwardly by the war, that was a commercial ruin. And what the war left, the Revolution nearly swept away.

Whereas the end of the war meant to France and England, & others, a quick revival, a release from hardships, it brought Germany near to starvation. ~~Her~~ The trade could not revive from the collapse of its industrial morale. Its recovery is slow.

Nothing else I think will explain why ~~today~~ Germany does not present a paradise for buyers, and why the ~~vast~~ vast volume of marks held abroad, estimated at 30 billions and more, does not flow back to buy goods and send German prices skyward again. I believe they soon will, and that the great stock-market boom now on here, presages another great it, has been but little touched upon. That is the real industrial and commercial paralysis in Germany that came with the war's end, and the Revolution.

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So when the end came, it presented the extraordinary situation, of a land, so to speak without a war scar, untouched visibly or outwardly by the war, that was a commercial ruin. And what the war rise in the price level in this country, a period of feverish and unhealthy prosperity and "boom", with the inevitable collapse.

I do not see how, even with all the reparations difficulties, and Germany's need of raw materials, the present anomalous situation can continue. It is economically impossible. ~~Fo~~ For the present, the situation has been saved, or rather created, by her great borrowings in the last two years, for food & goods. Mr. Max Warburg and Dr. Havenstein of the Reichsbank, two of Germany's ablest bankers, estimate the amount of mark credits in Germany, held by foreigners at "not ~~the~~ less than 60 to 80 billions" (own notation) which, with 30 billions of paper marks abroad would bring the total to 100 milliards (billions) or more. Mr. Mendelssohn, the banker, Dr. Kunstler of Bleichroeder's bank and others do not put the amount so high. But it is certainly very large, for Germany.

This undoubtedly has a heavily depressing effect on exchange, and explains why it is so wholly out of line with the general price level of this and other countries. As Germany's production, and exports, rise, so must exchange, if of course, they can prevent further inflation.

So far this year, they have done very well. The net increase in notes is only about 2 billions or about 2%. Last year it was over 50%. And all of this increase, and more, has gone abroad, for prices have held fairly on a level for a year. ~~[illegible]~~

The variance between the note issue

and the price level has been very marked, and has been a puzzle to those who hold to an inviolable quantitative relation. But the explanation I think is clear. I have made this calculation:

The total note issue, including the Darlehen notes, now runs to about 90 billions. But over 30 billions are held abroad, and hence have no effect on prices here. ~~Fo~~ The net then is from 55 to 60 billions.

Before the war, as I recall it, the note issue in Germany was about ~~about~~ the 5,700,000,000. Increase there fore about 10 times, or close to ~~nearly~~ the estimated average increase of all prices. It is very striking: but, I think, invariable and inevitable.

Now. Germany is still borrowing heavily, and must, for food & materials.

12

Its production is still very low: Prof Bonn & Dr. Kuczynski estimate it at not more than 60% of pre-war totals. Perhaps this is much too low an estimate; but the facts about many industries, and the crops are known.

The exchange then will probably remain low for a good while, possibly a year ~~or more~~. It is now gaining considerable credits from Holland and England, and doubtless elsewhere. Mr Max Warburg remarked by the way on the extreme slowness of our bankers to ask. They were arranging a credit for $3.000.000 which he said was perfectly good, and it hung fire in N.Y. for 4 weeks. Finally they tried out London and got a credit for 3 times this amount, in four days. W. think we have yet much to learn to become international bankers!

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But eventually as production rises and exports rise, so will general prices and the present inequality of purchasing power be balanced.

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There is course great dis=appointment at the attitude of America, and Am. bankers, and of course the bitterest feeling against France; and on the other hand a curious reliance on England, that she will, some-way, see that they get what they would regard here as fair play.

A wonderful tribute!

In my next I shall try to give a closer view of the present difficulties in the industrial situation, which will perhaps explain why we have had such a variety of conflicting reports, mostly I think from very superficial observations.

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With best regards

Always

Carl Snyder

(COPY)

Leipzig, July 21, 1921

Dear Gov. Strong:

I have now seen a good deal of Germany, from Aix-la-Chappelle to Cologne, to Essen (the Krupp works), to Hamburg, to Berlin, to Halle, and here; and I think I am now in a position fairly to gauge its industrial situation.

I begin with the most striking fact, its general price level. Measured in exchange, this is distinctly below that of France, England or America. I said that prices in London and Paris, in the things that tourists buy, were, at current exchange, rather higher than in New York. With sterling at $4.00 and francs at 8¢ and over, they were clearly higher.

But so far as one can gauge it, the general price level, which means both wholesale and retail prices, wages, salaries, rents and all, is, of the three countries, at the average exchange rates of the last year, essentially the same. That is, a dollar converted into sterling or francs, indifferently, would buy about the same quantity of goods and services the year through, in England or France, as it would in the United States.

Broadly, the price levels of the three countries swing together, and the exchange, over a sufficient period, exactly measures the difference in the purchasing power of the several currencies. This was why, for example, sterling at $4.00 was "high" or "dear," and had to come down as it has, if goods were to be freely exchanged.

This is not true of Germany. The mark is heavily undervalued. For example: This morning in the hotel here, one of the best hotels in Europe, I paid for my usual breakfast of coffee, rolls and jam, and one egg, 13 marks--at current exchange about 18¢; for a large double room with two beds and unusually large bath, I paid, for two people, 200 marks or, say, $2.70; for an hour's drive around town last night, 25 m., or 33¢; for my morning paper 30 pf., or ½¢.

An excellent dinner last night, in one of the famous students' restaurants--roast goose, salad, potatoes, cauliflower, etc., and two large steins of wonderful beer--cost 63 marks, or, say, 90¢.

In Berlin it was not much more. Cabs in general cost eight to ten times the meter showing. You rode a mile for, say, 16¢.

In Berlin my wife bought linen in the best stores at what she estimates would be just about half what she would pay at McCutcheon's in New York. And so it is everywhere you go.

Land and rents are kept artificially low by the rent laws and the enormous cost of building (here as with us!), and railway fares are about half what they should be, on a level with other prices. (This is partly political.) For example, from Hamburg to the North Sea resorts (five hours), third class, there is an excursion at about half rates, 30 marks, or 45¢. Ten trains a day have been moving 8,000 people a day steadily for three weeks already, or over 150,000 people, and the season is only begun. This is, of course, simply a subsidy.

In a word, general prices in Germany have risen eight to twelve times, with a fair average of about ten times; many articles, like steel, fifteen to twenty-five times; wholesale prices near to fifteen times, perhaps; retail prices not over ten, I should say; wages are estimated at eight to ten; railway freights about six times, and so on.

And at this level Germany is, as I said, fairly prosperous, or at least unusually well employed, and I think now fairly well fed.

It never was, at its apex, eight or ten years ago, very well fed, in the American or even the French sense.

Now, consider. German prices rise about ten times, where ours about double, as nearly as anyone can estimate.

Hence, the relative value of the mark, in gold, in actual purchasing power, is about 5 or 6 to 1 to former parity, i.e., is "worth" 1/6 to 1/5 what it was, in gold.

The present exchange rate is near 1 to 17, in gold; so that, in gold, the present value of the mark is not over 40 per cent. of its purchasing parity; 50 per cent. at the outside.

By this I mean that a dollar in Germany, at current exchange, will buy, roughly, two to two and one-half times what it will in England, or France, or the United States.

This is, of course, not true of the main articles of export, where the average of prices, in gold, is undoubtedly much higher, possibly 30 per cent. higher, at a guess. But it still remains that even the export price level is far below that of England or France, or our own, or was, at least, last year. It is not so much so now, of course.

And the explanation of this extraordinary situation I find very difficult. There are many answers. First, up to recently many prices have been kept down by edict--food, etc. Next, there have been, up to now, real difficulties of transport. And undoubtedly there has been a real shortage of production. Almost all the available figures show this clearly.

But the main fact, as I see it, has been but little touched upon. That is the real industrial and commercial paralysis in Germany that came with the war's end, and the Revolution.

Germany was then at about the half-way stage to Russian sovietism, i.e., to complete breakdown.

No other country, apparently, was so highly geared to a war basis as Germany. Apparently it fought the war to almost complete industrial exhaustion. It could not have gone on.

So, when the end came, it presented the extraordinary situation of a land, so to speak, without a war ruin, untouched visibly or outwardly by the war, that was a commercial ruin. And what the war left, the Revolution nearly swept away.

Whereas the end of the war meant to France and England, and to us, a quick revival, a release from hardships, it brought Germany near to starvation. Its trade could not revive from the collapse of its industrial morale. Its recovery is slow.

Nothing else, I think, will explain why today Germany does not present a paradise for buyers, and why the vast volume of marks held abroad, estimated at 30 billions and more, does not flow back to buy goods and send German prices skyward again. I believe they soon will, and that the great stock-market boom now on here presages another great rise in the price level in this country, a period of feverish and unhealthy prosperity and "boom," with the inevitable collapse.

I do not see how, even with all the reparations difficulties, and Germany's need of raw materials, the present anomalous situation can continue. It is economically impossible. For the present, the situation has been saved, or rather created, by her great borrowings in the last two years, for food and goods. Mr. Max Warburg and Dr. Havenstein, of the Reichsbank, two of Germany's ablest bankers, estimate the amount of mark credits in Germany, held by foreigners, at "not less than 60 to 80 billions" (our notation), which, with 30 billions of paper marks abroad, would bring the total to 100 milliards (billions) or more. Mr. Meldelsohn, the banker, Dr. Kunstler, of Bleichroeder's bank, and others do not put the amount so high. But it is certainly very large, for Germany.

This undoubtedly has a heavily depressing effect on exchange, and explains why it is so wholly out of line with the general price level of this and other countries. As Germany's production and exports rise, so must exchange, if, of course, they can prevent further inflation.

So far this year they have done very well. The net increase in notes is only about 2 billions, or about 2 per cent. Last year it was over 50 per cent. And all of this increase, and more, has gone abroad, for prices have held fairly on a level for a year.

The variance between the note issue and the price level has been very marked, and has been a puzzle to those who hold to an inevitable quantitative relation. But the explanation, I think, is clear. I have made this calculation:

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With best regards,

Always,

(Signed) Carl Snyder

Fifteen Nassau Street
New York

Prag.
July 24.

Dear Burgess:

Tried in vain in Leipzig & Dresden to get this copied. If you will have it copied for Gov. Strong and me that "it at least makes grammar", as Ingalls used to say to the interviewers.

Beastly hot here!
Tell Kenzel I saw Tille.

This is no unmixed

joy, I assure you — trains & hotels crowded, and hot & you take what you can get. I have had more enjoyable experiences.

Hope all goes well at the shop. Had a note from Mr. J. about not using my letters. O.K.

Warmest regards to all the family. Always Snyder

(COPY)

Vienna, July 29, 1921

Dear Gov. Strong:

The industrial situation in Germany may, I think, be summed up in the facts I have already cited.

First of all, Germany seems generally well employed. So far as I could learn there is very little unemployment. Among certain types, as clerks, stenographers, etc., there may be some, owing to the great decline in the export trade. But it is not important.

The second fact is that Germany is not now producing over 80 per cent. of its pre-war output, pro rated on its present population, i.e., the product is now about 80 per cent. of 90 per cent., or around 70-75 per cent. of the pre-war total.

This is just an approximation, but I think it is not far out. Competent persons, like Bonn and Kuczyuski, say not over 60-70 per cent. But Dr. Schumpeter, former finance minister here in V., says that some of the figures given out in Germany by the large corporations understate the facts and that this is with the tacit consent of the German government.

Certain industries, like steel and iron, are prosperous and running at near to their normal, possibly a few above this. I have given the figures for Krupps--52,000 men against a pre-war force of 45,000. But since the war Krupps have branched out into every sort of thing. They make now motion picture machines, motor cars, moto-peds, and heaven knows what. Also, they have gone in heavily to making locomotives, etc., hoisting machinery, and the like. So that they themselves even could make little comparison with their pre-war condition. They said, however, their gun works never employed over 5 per cent. to 10 per cent. of their force.

Their main output has, of course, always been fine steels, for machine some of it approaching the value of semi-precious metals.

In paper marks, their present earnings on their capital are very high. Roughly, they would have to be 10 to 12 times as much to be equal to the pre-war earnings. This cannot by any calculation be true, so it seems fair to say that even with a larger force the Krupp works profits in gold are now less than before the war.

Much the same, I think, is true of the whole iron industry; it is well employed, and earning large paper profits, which are actually less in gold than before the war.

The electrical industry about corresponds to the known imports of copper. That is, the output is probably not much over half what it was. That is Dr. Rathenau's estimate for the A. E. G., and if it was more, then we should have to suppose that the brass works, etc., in Germany were today out of commission. The reverse, I think, is probably true. The electrical industry in Germany since the war has enjoyed no such tremendous boom as ours. There has been no large amount of disposable capital for the extension of electrical lines, nor, as in America, has there been such a shortage of servants as to lead to an immense manufacture of electrical things for the home.

This fact, I believe, has great significance for our copper industry. With the great revival which I believe to be coming, German and European takings of copper should be very large.

It is extremely difficult to get any sort of accurate idea of the present state of German exports. The figures have confessedly been unreliable and have recently been overhauled, and from now on may be much more dependable. But comparison with pre-war exports is very difficult.

We know that her greatest source of profit in exports, Poland and Russia, have been almost cut off. I fancy there has been a good deal of underground trade but this is not large. Exports to France and England, to Austria, Checko, etc., are certainly far below pre-war, and, to the rest of the world, still less.

So, in spite of undoubted exaggeration, one very large source of Germany's wealth, and employment, has been at least cut in two if not in three. Before the war I estimated that probably more than one-quarter of Germany's total product, possibly 30 per cent., was going abroad, as against less than 10 per cent. with us. So that while our foreign trade is not of very great importance to us (we could easily adjust so as to get along without any exports), this trade was to Germany, as to England, the source of her largest profit, and was the basis for her remarkable increase in wealth after 1870.

Cut off a large part of this and it is clear that Germany must be very seriously crippled. I am quite sure it is, and that the talk that Germany is shamming, and able to pay a large indemnity, is absurd. Economically, Germany was probably the hardest hit by the war of any country in the war.

Now, if in the face of this one can say that unemployment is not serious and a large part of the country is fairly "prosperous," what does it mean? It means that, speaking very roughly, it takes in Germany now 10 men to do 8 men's normal or pre-war work. That is the effect, broadly, of the 8-hour day and existing industrial conditions.

In an economic sense, Germany and a large part of the Continent are industrially overmanned.

The only possible result of this, of course, is that the real income of the German people, in goods and services, is at least 20 per cent. below the pre-war standard. And I think there is every evidence that, in a broad way, this is the fact.

Undoubtedly, in some industrial sections, as in the iron industries, the workers are receiving high real wages, and doing fairly well. The general estimate, as I have given it, is that wages have risen about 8 times and the workers' cost of living 9-10 times. In some sections, it is better than this.

In the war the coal-miners got high wages, and Germany has had a colliery-worker problem almost as serious as England's. It is slowly being brought back to normal. At first, after the Revolution, the workers demanded a 7-hour day with a promise of 6. Now they work 8, and in some cases 9. Hence, Germany's coal shortage has been only in part an effect of the partition.

But if some classes, like the miners and steel workers, have done fairly well, others have suffered, and I believe to an extent that will seriously hamper Germany's revival.

There was, and is, in Germany an immense population of a middle class, like the Government employees, school teachers, etc., that contributed largely to keep up the high standard of German intelligence. They were thrifty, hard working and solid. Many of these have been reduced almost to penury. You get a glimpse from this:

In Paris, for a hay-fever serum injection, which takes five minutes, a very ordinary physician, for an office visit, charged 300 fr., about the real equivalent now of, say, $2.50 to $3 in gold. In Dresden, for the same thing, 20 marks--the real equivalent of, say, perhaps 50¢! Or less!

Many Government officials have to live now on the equivalent of not over $400. How they do it is a mystery.

Before the war, college professors in Germany were well paid--$5,000 to $10,000 and over. Today the real equivalent is not one-fourth of this.

And all the great class of small investors and small fortunes, people with incomes of $5,000 and over, have been nearly wiped out. I visited a friend in Berlin who lives in a house and property worth, before the war, perhaps $50,000. His present scale of living would perhaps be equal to around $2,500, gold.

The result of all this is that the upper class in Germany today are the speculators and "schiebers," the profiteers, the Stinnes, and half a million imitators. If before the war Germany had 3,000 millionaires, in gold marks, today it may have 30,000, or twice or three times, in paper. And these nouveaux riches largely own Germany, now.

The educated, the cultivated, the thrifty, the population that made Germany before the war preëminent in literature, painting, science, invention, and education has been expropriated and practically ruined. The effect will be, apparently, to make the new Germany a land of vulgar rich. It will be interesting to see.

Meanwhile, the crops this year will be, in spite of the drauth, very good, and nearly double last year. There is food enough and German frugality will make this suffice without, perhaps, such heavy imports.

Western Germany looked much smarter and better fed than Berlin, Leipzig, or Dresden. All of the latter look a little shabby and down at the heels, Berlin most of all. The country is crowded with foreigners and bargain hunters. It is they who enjoy her luxuries and populate her hotels; for the most part her own people cannot afford it. But all this outside spending helps to tide over a serious time.

There is little doubt that, if it is not too heavily loaded with reparations and hamstrung at the same time, Germany can come back and will.

Indeed, if I am right in thinking that we shall see a great revival and perhaps a boom in world trade, five years hence may find Germany restored to its pre-war level of production, trade and general comfort.

If this is true, it presents at the moment a wonderful field for American investment.

Sincerely,

(Signed) Carl Snyder

Snyder

Bad Gastein, Austria.
August 2, 1921

Dear Governor Strong:

The more I see of present-day Europe, the more I am impressed with the belief that few things can do more to disturb the equilibrium of a country, both internal and external, than a debasement of its currency.

We have had examples enough in our own country. My present illustration is Austria.

When I reached Berlin the dollar would buy about 750 Austrian Kroner. A year ago, about 650. When I reached Vienna it would buy 950, and no one seems to have the slightest idea as to where it will go.

The Government cannot meet present expenses by taxation because, they say, of their suddenly being transformed into an isolated minor state of six millions population from an economic unit of 50 millions, and that this same fact makes it impossible for the country to become at once self-sustaining, or balance its imports and exports.

No doubt this is in large part true. Vienna was the _entrepot_ of a diversified empire, with its industries largely in Bohemia, its granary in Hungary, and so on. At a stroke of a pen this economically satisfactory state is torn asunder to satisfy the national and political cravings of a heterogeneous population. Whether they, or the rest of Europe, will be any gainer thereby remains to be seen.

Probably slowly the old commercial order, disturbed by tariffs and endless controversies, will be restored--is now being restored. But this will take time. Meanwhile, four or five inexperienced and rather ignorant governments are trying to supplant economic reality with nationalistic egotism. Thereby a considerable part of the population is near to the starvation line, the profit of trade is difficult to realise, and a general demoralization ensues.

I am everywhere told things are much better now than a year ago, and here and there you find those who feel that it will slowly work out all right. And this is probably true.

Of the dismembered states, Austria has undoubtedly fared the worst. It is now the smallest of the four new states and has the least natural resources. Vienna was a trading, banking and governing centre and co-ordinated the activities of the Empire. This it is now badly crippled to do. As a result, it has lost several hundred thousand population, has known much misery, and gone back 20 years in wealth and income.

It appears now to have an excellent government, non-political, trained and conservative. On the whole I take it the best, much the best, of the four states. The rest seem pretty bad. Here the socialists and the world-renewers were the first to lose caste and power in the face of the general prostration and misery of the country. But Austria was and is a bureaucratic land; the office-holders are a powerful class in themselves and apparently, as everywhere, there is a large overplus of public servants. Many who were in different parts of the Empire were drawn back here and had to be taken care of. This has made governmental economy difficult.

Then, this segregated six millions of traders and commercialists, with their dependants, had somehow to be fed, and that meant paying money to states that wanted simply to sell and not to trade or barter. A flood of paper promises was the result, with all its attendant evils.

I am sure it was in great part, also, a cause of existing conditions. There is this difference between a government bond and paper money, that until the former becomes an active medium of exchange and acts as money, it has little or no effect on general prices. This is what apparently few governments have ever been able to learn. Austria did not. It could not realize that it was better to sell its bonds at 25¢ on the dollar than to print money.

As a result, it is, next to Russia, perhaps the most demoralized country in Europe. I say this in a very wide sense.

Yet, astonishing to say, Austria, in part at least, is now industrially doing fairly well. Some of its slender industries have even been enjoying a little boom. At present the total amount of unemployment is not large, nothing, for example, to compare with England or with us.

But why? Simply because with the steady depreciation of the currency certain exports have been possible at very attractive prices to outside buyers. In addition a considerable amount of speculative capital has come to Austria for just this reason. Every kind of property is astonishingly cheap.

But all this can go on only so long as depreciation continues. To this there is a definite end. And today all kinds of trade and industry are in the most topsy-turvy state. You go into a shop and price a coat or bedstead and they give you a price for that day. The next it may be 10 per cent. more, as exchange falls.

This is not so bad so long as the depreciation goes on. But a reversal of this trend would mean ruin to many merchants and manufacturers. The result is that everyone lives from hand to mouth. The stocks in the shops and everywhere are low, and I am told that it is impossible to buy or contract for any considerable quantities of anything.

As a far more important result, almost all capital improvement is dead.

This simply means that the country is slowly eating itself up. There is the most fantastic disparity of prices. When you pay the taxicab, you multiply the meter reading by 60, and the crazy, bumping things you ride about in are dear even at the price.

For a hotel room I paid 2400 Kr. It was probably about 20 Kr. before the war. A fair dinner, such as would cost in New York say $2, costs in Vienna at the best restaurants, say 600 Kr.; before the war, perhaps 10 Kr.

A fur coat that would cost in New York $400 to $500, costs now in Vienna 100,000 Kr.--at current exchange a little over $100. Silks or fine linens are dear, and articles of gold, but other jewelry is absurdly cheap.

Railway fares are still ridiculously low. A night's ride with sleeper from Vienna here costs, for two, about 10,000 Kr., say $11.

It is impossible to estimate the average rise of prices, as you can in Germany, because they are still rising rapidly, and, as always, very unevenly, so that while some profit the many suffer.

Roughly, I should say the average of all prices, wages, salaries, real estate (which has risen very little) and all, had risen from 80 to 100 times, or about 10 times that of Germany.

In a word, the present value of the Kroner as a purchasing instrument is now around 1 to 1½ heller. At present exchange in gold, about 1,000 Kr. to the dollar, it is not half this.

As in Germany the external value of the money is not over half its internal value. As a result, Austria, far more than Germany even, is now a bargain counter to the outside investor. And whereas in Germany they look rather jealously on foreign purchases of German industries and German properties, and have sought to prevent this to some extent, in Austria, thanks to its political and economic as well as financial plight, it is welcomed.

I am told that the government is prepared to offer the most attractive terms to outside capital and to guarantee its safety from interference or inimical taxation; and I think this guarantee would be reliable. The leaders of all the parties have practically joined in an assurance that the pledges made by the government will be faithfully carried out.

Of course here, as everywhere, there are extremists of every type. But the temper of Austria has always been conservative, and its recent and present experience has been such as to give this temper a renewed hold on the people.

Austria badly needs help. It is willing to pay for it. English capital is now coming into the country, and some of this, as I understand it, from the Bank of England itself. Some of our German-American banks and capitalists have done the same in a small way.

I am sure there are few fields where American investment would offer larger or surer returns; and Vienna is the pivotal point of the trade and banking of Eastern Europe, that is, of a population larger than the whole of the United States. That means effectively three times the whole of South America. With Germany crippled and England pretty fully occupied, I know of no direction in which American capital, energy and industry could be more effectively employed than here. Their water power alone far exceeds our own, is but little developed, and nowhere are labor and materials cheaper than here.

Always,

(Signed) Carl Snyder

MISC. 1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 23, 1921.

TO Governor Strong

SUBJECT: Mr. H.A. Glasmacher's letter to Senator Wadsworth.

FROM Mr. Carl Snyder

The policies of the Federal Reserve Banks and of the commercial banks of the country, throughout the late crises, must inevitably be a subject of controversy so long as men differ on what constitutes sound banking and financial policy; but at least it is possible to get rid of certain misunderstandings which are typically reflected in Mr. Glasmacher's letter.

(1) Mr. Glasmacher would like to have had deflation carried out "in an orderly manner like in England." It is only needful to say that the fall in prices in England and the United States has almost exactly corresponded, month by month, as is set forth in the attached diagram. And the percentage of "deflation" has been to date almost exactly the same.

(2) Mr. Glasmacher speaks of cutting off "practically every firm" from its credit supply. The answer to this is that the fall in prices began in May and that the peak of loans in the commercial banks of the United States was not reached until the following October and that there was no perceptible reduction in the amount of these loans until December. The fall in prices did not result from a contraction in credit and this fact has been a very great puzzle to many of our economists.

(3) Mr. Glasmacher seems to imagine that the number of business failures in the present crisis has been very great. As a matter of fact, up to the latter part of last Winter the percentage of failures was far below the normal or average of the last sixty years, and has been only just up to this normal since that time. That is, the percentage of failures has not been greater than in times of ordinary prosperity.

(4) The letter refers to an estimate by "a leading manufacturers magazine, that these losses run over $25,000,000,000." This is pure imagination. It is doubtful if there are every much more than $25,000,000,000 worth of goods on hand for sale in the United States. And as they have on the average, both wholesale and retail, fallen by perhaps one-third, it is evident that the above estimate is simply grotesque. And this loss has been very widely distributed among the manufacturers, jobbers, retailers, speculators, and the banks, so that the "trail of ruin" which Mr. Glasmacher refers to has been extremely small.

(5) Mr. Glasmacher speaks of the Bank of England's gold reserve as being only 11 per cent. Computed by the same method as that of our Federal Reserve Banks, this reserve ratio was on August 3rd 50.6 as compared with the Federal Reserve ratio of 63.7.

(6) Our bankers may have, from Mr. Glasmacher's point of view, handled the situation very badly, but it is certain that their losses have been as great as that of any other class, so it could scarcely have been a "studied intent to ruin the vast portion of the people of the country." The prosperity of the banks is dependent upon the prosperity of the people, and not upon their misfortunes.

(7) Mr. Mellen is censured because his department "could easily

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 23/21

TO Governor Strong

SUBJECT: Mr.H.A. Glasmacher's letter to Senator Wadsworth.

FROM Mr. Carl Snyder

prescribe an easement of these conditions through the National banks." Surely Mr. Glasmacher must know that neither the Secretary of the Treasury, nor any national power, nor the Federal Reserve Board have the slightest power over the making or withdrawal of a loan by any bank, national or other, save when the bank is thought by the examiners to be in bad condition and certain reforms are prescribed.

(8) Mr. Glasmacher seems to imagine that the London banks have not shut down on a further extension of loans like the American banks and that the interest rate there is very much lower than in the United States. As a matter of fact, on the testimony of the Bankers' Magazine of London, the prevailing rate for commercial loans through the larger part of last year in London was around 8 per cent. and has only slowly receded in the present year, exactly as in New York and other cities here. Mr. Glasmacher is apparently misled by the prevailing rate on bills in the London market, which is always somewhat lower than the rates on acceptances in this country. Aside from this difference, the two countries have been and remain pretty much on a par.

(9) The London banks have been subject to the same violent criticisms which Mr. Glasmacher levels at the bankers of this country, because their policy has been practically the same. I think it is extremely doubtful if any long-term credits, save of the most gilt-edged sort, have been granted at any such terms as Mr. Glasmacher mentions, "5 per cent. maximum." They are, of course, much more accustomed to international banking and it may have been somewhat easier to secure loans on exports from England than from this country. But this is probably in large part due to the very heavy losses which our banks have sustained within the past year on precisely this type of loans.

(10) Apparently Mr. Glasmacher imagines that there has been a great curtailment in the credit supply. As a matter of fact, the total decrease in loans in the commercial banks of the country from the peak of last fall, up to the present time, does not much exceed, if it equals, 12 per cent. And this decrease has been in large part quite voluntary on the part of the borrowers and simply because they did not wish to pay the prevailing high rates of interest. Doubtless there have been many cases where the banks have refused to renew loans, and in some cases this refusal may have worked severe hardship. But it is proof that this has been rare from the fact that the number of failures has been no greater than the average of ordinary peaceful times, and nothing like the great number which has usually been the aftermath of such a severe commercial crisis.

(11) The bankers are fallible and their judgment in the last three years may have been very faulty. But in the minds of thoughtful economists the fault lay rather in the direction of giving rein to a wild and unrestrained boom, accompanied by a most violent rise in prices ever known in this country within a similar period throughout the last century or more. History teaches that such a violent rise in prices invariably brings in its trail an equally violent fall. What the condition of the country would have been had the

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug.23/21

TO Governor Strong

SUBJECT: Mr. H.A. Glasmacher's letter to Senator Wadsworth.

FROM Mr. Carl Snyder

Federal Reserve System not been there to palliate the disaster can only be imagined.

(12) Mr. Glasmacher will recall that the recent crisis was a world-wide crisis. That it appeared in Java and Japan and South America, and in some countries of Europe, long before it did in the United States, and that the onset of the crisis in this country was largely occasioned by the collapse of foreign payments and the sudden stoppage, in consequence, of our foreign trade.

(13) What was world-wide can scarcely have been the product of local causes. Possibly if the Federal Reserve Banks had been in a position where it would have been possible to raise the rate of rediscount much earlier than they did and thus to some extent prevent such a tremendous extension of bank loans and hence such an unprecedented rise in prices, the fall in prices and the ensuing crisis would not have been as severe in this country as it was. But this is a question of judgment. And similarly a lowering of the Reserve Bank rate of rediscount in the crisis might have had some palliative effect. But the real difficulty lay in the quality of the loans in the banks themselves, and not in the prevailing rate~~, and not in the rate~~ of interest; and the making of these loans, it is clear, was due to the over-confidence of our bankers, and scarcely to "a studied intent" of the bankers to bring ruin, or great loss to not only their clients, their neighbors, and their friends, but to themselves as well.

rather

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 24, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

Here is a note from Mr. Nixon, of the League of Nations, and Blackett gave me another from Mr. Loveday when I was in London. As every item they ask for is published currently in the newspapers and business journals, I wonder if there is any objection to complying with their request to send it along unofficially. We would take no responsibility whatever; and they could get it all a little later in Mr. Hoover's new "Survey of Current Business," only it would be several weeks late.

M 3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 24, 1921.

TO Governor Strong

SUBJECT: Stabilization of Exchanges.

FROM Mr. Carl Snyder

Everywhere I went two questions seemed to be uppermost. These were

(1) How shall we stabilize our exchanges?

(2) What will your country do with its monstrous load of gold?

The two questions are, of course, very closely associated. Professor Cassel had the idea that the simplest way would be that we should utilize our gold to inflate to a certain extent, so that the exchanges, and especially that of Sterling, would be considerably bettered ~~by~~ over the present prices and then the different countries might be willing to stabilize, as a temporary measure, upon the basis so reached.

The difficulty with this suggestion is that English and American prices tend to swing very closely together. This has been markedly true in the decline of the last year or two when the declines in the two countries have been practically parallel. And, speaking broadly, this has been true for a century or more, as is shown by our recent comparison of English and American prices from about 1790. The exception, in the period of our Civil War, was more apparent than real, since the great rise in prices was purely in paper money. Measured in gold, there was practically no rise in prices in this period.

It seems evident that this relationship will continue, for the simple reason that the big bases of wholesale prices are the major products, which are the main articles of international trade. And England, for example, and other countries must pay the same price, plus the freight, for cotton, or copper, or meat, or wheat, that we pay. And in almost the same way their prices for products of steel and copper and all the rest must be essentially the same as ours, in order that international trade shall subsist.

If, now, prices in England have declined in almost exactly the same degree and in the same time as prices in the United States, it seems extremely doubtful if it would now be possible for the United States to have a great rise in prices without an exactly corresponding rise in England, because the normal process of equalization in exchange and prices is absent. A rise in prices in this country would not occasion a heavy outflow of gold, as in normal times. The only way I can see that English and American prices could be restored to their former parity would be such a further deflation of the English note issue and a corresponding decline in the general or national level of all prices, salaries, wages and rents, as no statesman at the present time could contemplate.

The English paper price level is at least 25 or 30 per cent. above that of the United States, and this relationship has not ~~xxxxxxxxxy~~ substantially changed within the last year and a half. Therefore, I do not believe that Professor Cassel's proposal is a solution of the difficulty.

MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 24, 1921.

TO Governor Strong

SUBJECT: Stabilization of Exchanges.

FROM Mr. Carl Snyder

But almost everyone must agree with Professor Cassel's belief that the great barrier to the resumption of international trade is the lack of stability in exchange. Business will adjust to almost any level, and the absolute or exchange value of the pound, the franc, or the mark, so far as international trade is concerned, is of almost negligible interest. What is of profound interest to the business man, and the exporter, and the importer, is that this relationship shall not vary by 10 or 20 per cent. before he has had time to manufacture and deliver the goods that he has contracted for.

In each of the countries I visited there is already the beginning of a solid body of informed and influential opinion behind Professor Cassel's proposal to stabilize as quickly as possible and at practically the status quo. This need not involve any revaluation in gold of the different currencies. These valuations are already abrogated simply by an effective embargo. The only thing that is needful is to give the central bank, or some similar body, authority to buy and sell exchange at a fixed figure in unlimited quantities, with, of course, the government treasury behind it. The gold embargo would, of course, have to be lifted in order that gold might flow freely, as in normal times, and in the place of the present embargo it would be needful to suspend the present nominal conversion rights for the outstanding paper money. This would involve no hardship to anyone.

The question then arises whether it would be possible to fix the "pegging point" with sufficient accuracy to prevent a great drain of gold from any country, save possibly the United States. This is a very delicate question and the answer is not easy. For example, at the present time, as I have pointed out, the currencies of Germany and Austria are very heavily under-valued. I think the same is true, to a lesser degree, even with the pound Sterling and the franc. But it is a very interesting question as to whether it would be possible to work out statistically a purchasing parity between the different currencies that in actual practice would involve no great gold movement, or whether the present exchange rates are not pretty near to a true index of this relative value.

The answer, I think, is that the pegging point need not be final. It could be experimental. And if any one country found that it was unable to sustain exchange at that particular point without a great loss of gold, it would simply have to lower it.

As to this latter,it would be an advantage if the common point, so to speak, for the European countries, could be at such a level that this would occasion a pretty steady flow of gold from the United States.

It would, of course, be an immense further step towards real stabilization if the United States would agree to an international loan of say six or eight hundred millions of our surplus gold. Probably this is politically impossible, in view of the clamor of the cheap money advocates, but I do not see why the ten biggest banks of the United States could not undertake it. They

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 24, 1921.

TO Governor Strong

SUBJECT: Stabilization of Exchanges.

FROM Mr. Carl Snyder

could float an international loan to say the five or six principal countries of Europe, which could be a common liability from all of them. And I do not see why this should be any very great difficulty. I believe England would undertake it if France would agree. There is at least a fair degree of probability that this loan could soon be floated in this country on a very favorable basis and the proceeds of it could be delivered in gold. And there never could be a more favorable time for the withdrawal of such a quantity of gold as at the present, or at least within the next year.

I should like to commend such a proposal to your serious consideration.

From Business Summary

STRICTLY CONFIDENTIAL
Please return to Mr. Barrows in the attached stamped and addressed envelope.

THE FALL IN EXCHANGES: It is not easy to understand the continuous and heavy fall in the continental exchanges, and especially the German mark. It is a curious situation. Up to the first of July there had been practically no increase in the output of paper money in Germany this year. The apparent increase in Reichsbank bank notes was balanced by a nearly corresponding decline in the War Loan Bureau notes, so that the net increase was negligible.

It is possible that, in order to meet the August reparation payments, the German government may again have had recourse to the dubious expedient of selling marks in foreign markets; and this may account for the recent extreme weakness. But this merely accentuates the anomalous position of mark exchange. The external value of the mark does not now exceed, if it is equal to, 50 per cent. of its internal purchasing power. Retail prices, wages and salaries, in other words, the average cost of living, has not risen in Germany more than ten times; and rents, of course, far less; so that at present prices American money in Germany will buy goods at something like 50 cents on the dollar.

In Austria the situation is worse. In exchange the kroner is not worth 40 per cent. of its internal buying power. There the situation is due largely to the plight of the government and the disruption of trade relations with the former constituents of the empire. But in Germany the great depreciation of exchange seems rather due to the prevailing distrust of the German government, and the fear of a further flood of paper money.

The impression gained by the writer of the intentions and policy of the present German government was on the whole favorable. I believe that, unless driven to extremes by the determination of the ultra-radical party in France to break Germany on the wheel, even if it means the ruin of continental Europe, the German government will pursue a fairly sound financial policy; and that they are just as anxious to get back to a gold basis as anyone could be. Dr. Wirth and others of the present ministry are deeply interested in the proposal to stabilize at something like the present status quo; ~~and I~~ cannot escape the impression that this is the most vital thing that could possibly be done for the restoration of her trade. At present her merchants and enterprisers are in deep fear of being caught with long-time contracts which they might not be able to fulfill. And time contracts are the very essence of modern commerce.

And what is true of Germany is equally true of England and France and all the rest. Almost every country, except possibly our own, is in dire need of goods which it cannot buy, because it cannot sell the surplus of goods which it itself possesses. A very large part of this difficulty is due not to the mere depreciation in exchange, but to the violent fluctuations of exchange, which render all forward contracting a more or less desperate gamble. The more active minds of Europe are ready for some step towards stabilization. In the mind of the writer, this country could do no greater service than to propose an international conference upon exchanges, possibly to be held at the same time as the conference on armaments. Practically speaking, this country is in a position to exert a very powerful influence in this direction. And until this end can be achieved, it is certain that all efforts to revive our foreign trade will be very largely futile. It is our own direct and personal interest which should determine this action.

Shown to Gov. Strong.

(Not included in Summary) August 28, 1921

THE BUSINESS PROSPECT: Looking back over the attempts of three months ago, made here to size up the business situation, one is inevitably struck with the slightness of change within this period. There has been, it is true, a steady advance in the Federal reserve ratio, and the load of surplus gold continues to pile up heavily. There has been a notable decline in the ratio of loans (excluding investments) to deposits in the Reporting Banks, and this ratio is now back to the lowest figure in the last three years, quite possibly to somewhere near as low a figure as it will reach. This means in general a much more liquid condition of the banks, and that they may expand unhampered as business revives.

It is the writer's belief that this revival is now not far away. It would not be surprising if the next month or two would see a very marked upturn in prices in the commodity markets, and possibly the inauguration of a very strong bull movement. Wheat exports for August have apparently broken all records and show clearly that the European demand is just as strong as it ever has been.

The general range of wholesale prices has in the last three months been bumping along what is probably bottom for a long time to come. There is a remarkable spread between retail prices and wholesale commodities, and especially of the big basic commodities which form the substance of our index. This wide gap can scarcely be long maintained.

The prospect of a much further lowering of retail prices seems slight, and in many lines an upward tendency is already evident. This country has probably had a swifter reduction of retail prices than any other, and this in spite of a very heavy retail trade. All the evidence available indicates that the actual volume of goods moving over the counters the present year has been larger than last. And as yet this physical volume shows no signs of diminution.

We have now had 15 to 18 months of declining commodity prices, and this decline is nearly twice as great as anything ever known before in a century. Likewise the stock market, which is always a valuable though not infallible barometer, has now shown 22 months of decline. Few bear markets have ever outlasted two years. The percentage of declines in industrials now reaches about 50 per cent. or more, which is greater than any other decline of which we have full records.

There has been a high mortality of mushroom millionaires, which means the transfer of large holdings from weak or reckless hands to strong. Loans on stocks and bonds are probably now near to a minimum, and several large brokerage houses report their borrowings at the lowest in many years. The beginnings of a marked change should not be many months away.

It is the belief of the writer that the foundations have been laid for a long and strong period of prosperity. Just as in the spring of 1920 it seemed probable that we were due for a violent reaction, so now the reverse is true. In many lines production has been curtailed to an almost unprecedented degree. Not in fifty years, probably, has the iron trade known a greater depression or a heavier fall of prices than this year.

Experience teaches that this cannot long subsist. The momentum of human needs is very great. The people of this country are accustomed to abundant comforts and many luxuries. The price of these is hard work and this price they will pay. In the mind of the writer the present crisis has been so sharp that it must be correspondingly short-lived. The one great problem is our foreign trade, and the prospects seem to be that this will steadily improve from now on. If our bankers and business men would take the lead in the reestablishment of a gold exchange standard, the restoration of international trade might be very rapid.

On the basis of the highest point of last year, our present gold holdings would provide for a loan expansion of nearly 10 billions, or one-third more than the total of commercial loans at the peak of last year. Practically speaking, this is beyond anything known in this country in at least forty years, save in 1916, following the huge inflow of gold at that time. It is possible, of course, that our trade revival may be slower than here anticipated; but when it comes, present indications suggest that it will mean at least two or three years of marked prosperity, if it does not develop into another general "boom," like 1919-20. This might mean, if we do not find a means to get rid of our redundant gold, a higher general price level than that of last year, though not necessarily of wholesale prices alone.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 30, 1921

TO Governor Strong

FROM Mr. Snyder

SUBJECT: National Economic League on International Relations

No such animile! The National Economic League has an office in Boston, and its Secretary is Mr. J. W. Beatson, 6 Beacon Street. Most of its activity is confined to sending out, about six times a year, questionnaires to a large number of more or less economically-minded people, taking a vote on their opinions on this question or that.

I am deeply surprised that you are not among the number. These questionnaires and replies, I suppose, are more or less utilized by the economic clubs of the different cities, for their programmes and as topics for speakers. In spite of the very excellent character and personnel of the voters, I should not attach any very great weight to the results of the canvass, not much more than to an ordinary newspaper questionnaire.

MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 1, 1921

TO Governor Strong

SUBJECT: Fixed versus Speculative Exchanges

FROM Mr. Snyder

I do not think that either Governor Norman nor Sir Charles Addis was in the least convinced that stabilization, even for sterling, was at present practicable or even very desirable. As this is a matter that it seems to me might well make a difference, perhaps of billions of dollars to the commercial world, I should like very much to offer this for your consideration:

(1) After sterling was unpegged in March of 1919, it fell steadily for a year, then had a sharp rise and fall, and another rise and fall. This means that now, for about two years, sterling has been fluctuating about a pretty definite point. And the same is true of most of the other exchanges.

(2) This can only mean, it seems to me, (a) what is the main contention in the whole idea of stabilization, viz., that a paper currency has a definite and determinable value and that this value depends upon the amount of goods it will buy in the country of origin, and that, in a broad way, this will determine its relative value among freely trading countries; and (b) that the fluctuations of the exchanges about this definite value will be dependent upon the pressure for bills and credits; in other words, the current state of trade, and that these latter have practically nothing to do with the fundamental question of value.

(3) It seems to me that the attached chart showing the wholesale prices of the different countries, converted into dollars at the current rate of exchange, sheds a real light upon this question. You will see that the lines steadily tend to converge and that in general the parity of all the paper currencies is below their relative value. In other words, there is a distinct undervaluation, as Prof. Cassel contends.

It seems to me that this can only mean that the effect of the establishment of a gold exchange standard would be somewhat to rehabilitate or raise the value of these currencies, so that it is of the most intimate interest to these countries to effect this stabilization as quickly as possible.

(4) If it be true that all those paper currencies are distinctly undervalued, then the point at which they could probably be stabilized, without a drain of gold, would possibly be higher than even the average rate of the last year. Or, to put it the other way, if the exchanges were pegged at this average rate of the last year, there would be a steady drain of gold from the United States and to these countries.

(5) The only thing I can see that would seriously interfere with this would be a temporary pressure for credits or bills, owing to the fact that, in general, the imports of these countries are excessive and must be reduced. I can see no way by which they can be reduced so long as the great volume of paper currency outstanding encourages extravagance, and the excessive imports do not have their normal effect in producing a drain of gold, a lowering of prices and a cessation of fictitious prosperity.

(6) In talking about unbalanced trade being the cause of depreciated exchanges, I think Mr. Gregory is right when he insists that we have got the

cart before the horse, and that unbalanced trade is in reality the effect of the depreciated currency, that is to say, of inflation.

(7) If the above is true, the relative value of sterling and gold dollars, for example, has not substantially changed within the last two years. This, as I see it, means simply that the relative or effective volumes of currency and credits in the two countries have not substantially changed and have both been affected by the same influences at the same times. In other words, relative to the dollar there has been no deflation of the English paper money issue within this period. Therefore, it seems to me that the possibility of the restoration of sterling to its pre-war parity is just as far off as ever.

Nor can I see how this relationship can change unless the fundamental factor is changed, that is, unless England reduces the volume of its paper currency or this country correspondingly increases its quantity (counting, of course, as currency every form of circulating medium).

(8) Now, as to another side. The unpegging of the exchanges and their consequent fall took place in the midst of a worldwide boom in trade and a violent and worldwide rise in prices. The whole world was lost in a kind of speculative fever. The effect of the great fall in exchanges and of their violent fluctuations thereafter was, therefore, not felt for a long time. It seems to me that it is being very seriousoy and drastically felt now; and will continue to be for a long time to come. In other words, the recovery of international trade, which is otherwise clearly in sight, will be seriously impeded, if not long delayed, by this great element of uncertainty in exchange values, which makes of almost all business more or less of a mere speculation.

(9) Even Sir Charles Addis and the Cunliffe Committee seem to expect no immediate return of sterling to par. At least, they laid their programme out for ten years, simply as a provisional measure. Could they have seen the terrific losses which were to take place in British trade, and all over the world, partly if not largely due to the violent dislocation of exchanges, would their conclusion have been the same? In other words, the question seems to me this:

(a) Shall we accept the average results of the last two years, which have clearly established the relative value of the pound sterling and other currencies, and fix upon a central point to which business may be adjusted and international trade revived; or:

(b) Shall we leave the exchanges to be the football of the speculators and have a fluctuation of sterling to the amount of 10 per cent. or more within each three or four months, to the ruin of international trade?

(10) There is nothing new in the dostrine of purchasing parities. It was clearly and ably set forth by Lord Goschen at the time of our Civil War, and it was by no means new then. If this general truth could be clearly seen by bankers like Lord Goschen then, and, for example, Lord D'Abernon now, what is it that stands in the way of its recognition and the adoption of a consequent policy now?

M19-3.1-200M-8-20

Snyder (2)

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 1, 1921

TO Governor Strong

SUBJECT: Fixed versus Speculative Exchanges

FROM Mr. Snyder

I do not think that either Governor Norman nor Sir Charles Addis was in the least convinced that stabilization, even for sterling, was at present practicable or even very desirable. As this is a matter that it seems to me might well make a difference, perhaps of billions of dollars to the commercial world, I should like very much to offer this for your consideration:

(1) After sterling was unpegged in March of 1919, it fell steadily for a year, then had a sharp rise and fall, and another rise and fall. This means that now, for about two years, sterling has been fluctuating about a pretty definite point. And the same is true of most of the other exchanges.

(2) This can only mean, it seems to me, (a) what is the main contention in the whole idea of stabilization, viz., that a paper currency has a definite and determinable value and that this value depends upon the amount of goods it will buy in the country of origin, and that, in a broad way, this will determine its relative value among freely trading countries; and (b) that the fluctuations of the exchanges about this definite value will be dependent upon the pressure for bills and credits; in other words, the current state of trade, and that these latter have practically nothing to do with the fundamental question of value.

(3) It seems to me that the attached chart showing the wholesale prices of the different countries, converted into dollars at the current rate of exchange, sheds a real light upon this question. You will see that the lines steadily tend to converge and that in general the parity of all the paper currencies is below their relative value. In other words, there is a distinct undervaluation, as Prof. Cassel contends. Where chart

It seems to me that this can only mean that the effect of the establishment of a gold exchange standard would be somewhat to rehabilitate or raise the value of these currencies, so that it is of the most intimate interest to these countries to effect this stabilization as quickly as possible. can it be done [illegible] in cr countries

(4) If it be true that all those paper currencies are distinctly undervalued, then the point at which they could probably be stabilized, without a drain of gold, would possibly be higher than even the average rate of the last year. Or, to put it the other way, if the exchanges were pegged at this average rate of the last year, there would be a steady drain of gold from the United States and to these countries. Will [illegible] the countries demonetize to this pegged [illegible]

(5) The only thing I can see that would seriously interfere with this would be a temporary pressure for credits or bills, owing to the fact that, in general, the imports of these countries are excessive and must be reduced. I can see no way by which they can be reduced so long as the great volume of paper currency outstanding encourages extravagance, and the excessive imports do not have their normal effect in producing a drain of gold, a lowering of prices and a cessation of fictitious prosperity.

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M 60.3.1-200M-8-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 1, 1921

TO Governor Strong

SUBJECT: Fixed versus Speculative Exchanges

FROM Mr. Snyder

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Nor can I see how this relationship can change unless the fundamental factor is changed, that is, unless England reduces the volume of its paper currency or this country correspondingly increases its quantity (counting, of course, as currency every form of circulating medium).

(8) Now, as to another side. The unpegging of the exchanges and their consequent fall took place in the midst of a worldwide boom in trade and a violent and worldwide rise in prices. The whole world was lost in a kind of speculative fever. The effect of the great fall in exchanges and of their violent fluctuations thereafter was, therefore, not felt for a long time. It seems to me that it is being very seriously and drastically felt now; and will continue to be for a long time to come. In other words, the recovery of international trade, which is otherwise clearly in sight, will be seriously impeded, if not long delayed, by this great element of uncertainty in exchange values, which makes of almost all business more or less of a mere speculation.

(9) Even Sir Charles Addis and the Cunliffe Committee seem to expect no immediate return of sterling to par. At least, they laid their programme out for ten years, simply as a provisional measure. Could they have seen the terrific losses which were to take place in British trade, and all over the world, partly if not largely due to the violent dislocation of exchanges, would their conclusion have been the same? In other words, the question seems to me this:

(a) Shall we accept the average results of the last two years, which have clearly established the relative value of the pound sterling and other currencies, and fix upon a central point to which business may be adjusted and international trade revived; or:

(b) Shall we leave the exchanges to be the football of the speculators and have a fluctuation of sterling to the amount of 10 per cent. or more within each three or four months, to the ruin of international trade?

(10) There is nothing new in the doctrine of purchasing parities. It was clearly and ably set forth by Lord Goschen at the time of our Civil War, and it was by no means new then. If this general truth could be clearly seen by bankers like Lord Goschen then, and, for example, Lord D'Abernon now, what is it that stands in the way of its recognition and the adoption of a consequent policy now?

permanent stabilization? What does he sa[y]

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 1, 1921

TO Governor Strong

FROM Mr. Snyder

SUBJECT: Forecast of Business Conditions

The main basis for the little forecast of business conditions which I handed you the other day lies in the studies we have been making as to the amazingly even and steady rate of growth in almost every line of industry where the figures are available. I showed you the chart of the world's steel production, and I am attaching herewith a number of others.

The world last year was short at least 30 million tons from what would have been its normal growth except in the war, and the total shortage for the last seven years from this normal growth is probably not much under 100 millions. That was the basis for my prediction of a great boom in the steel trade within the next three or four years.

A very interesting parallel was in the cotton consumption of the United States during and after the Civil War. Please note how swiftly it jumped back.

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 2, 1921 192

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I am sending you the attached, in case you should want an extra copy for Sir Charles.

Showed this to Sir C. & Gov. N.
They were much interested. Am sending Eddie
a memo. re whole affair —

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 1, 1921

TO: Governor Strong

FROM: Mr. Snyder

SUBJECT: Fixed versus Speculative Exchanges

I do not think that either Governor Norman nor Sir Charles Addis was in the least convinced that stabilization, even for sterling, was at present practicable or even very desirable. As this is a matter that it seems to me might well make a difference, perhaps of billions of dollars to the commercial world, I should like very much to offer this for your consideration:

(1) After sterling was unpegged in March of 1919, it fell steadily for a year, then had a sharp rise and fall, and another rise and fall. This means that now, for about two years, sterling has been fluctuating about a pretty definite point. And the same is true of most of the other exchanges.

(2) This can only mean, it seems to me, (a) what is the main contention in the whole idea of stabilization, viz., that a paper currency has a definite and determinable value and that this value depends upon the amount of goods it will buy in the country of origin, and that, in a broad way, this will determine its relative value among freely trading countries; and (b) that the fluctuations of the exchanges about this definite value will be dependent upon the pressure for bills and credits; in other words, the current state of trade, and that these latter have practically nothing to do with the fundamental question of value.

(3) It seems to me that the attached chart showing the wholesale prices of the different countries, converted into dollars at the current rate of exchange, sheds a real light upon this question. You will see that the lines steadily tend to converge and that in general the parity of all the paper currencies is below their relative value. In other words, there is a distinct undervaluation, as Prof. Cassel contends.

It seems to me that this can only mean that the effect of the establishment of a gold exchange standard would be somewhat to rehabilitate or raise the value of these currencies, so that it is of the most intimate interest to these countries to effect this stabilization as quickly as possible.

(4) If it be true that all those paper currencies are distinctly undervalued, then the point at which they could probably be stabilized, without a drain of gold, would possibly be higher than even the average rate of the last year. Or, to put it the other way, if the exchanges were pegged at this average rate of the last year, there would be a steady drain of gold from the United States and to these countries.

(5) The only thing I can see that would seriously interfere with this would be a temporary pressure for credits or bills, owing to the fact that, in general, the imports of these countries are excessive and must be reduced. I can see no way by which they can be reduced so long as the great volume of paper currency outstanding encourages extravagance, and the excessive imports do not have their normal effect in producing a drain of gold, a lowering of prices and a cessation of fictitious prosperity.

(6) In talking about unbalanced trade being the cause of depreciated exchanges, I think Mr. Gregory is right when he insists that we have got the

MISC.3.1-90M-1-20

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FROM Mr. Snyder

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(7) If the above is true, the relative value of sterling and gold dollars, for example, has not substantially changed within the last two years. This, as I see it, means simply that the relative or effective volumes of currency and credits in the two countries have not substantially changed and have both been affected by the same influences at the same times. In other words, relative to the dollar there has been no deflation of the English paper money issue within this period. Therefore, it seems to me that the possibility of the restoration of sterling to its pre-war parity is just as far off as ever.

Nor can I see how this relationship can change unless the fundamental factor is changed, that is, unless England reduces the volume of its paper currency or this country correspondingly increases its quantity (counting, of course, as currency every form of circulating medium).

(8) Now, as to another side. The unpegging of the exchanges and their consequent fall took place in the midst of a worldwide boom in trade and a violent and worldwide rise in prices. The whole world was lost in a kind of speculative fever. The effect of the great fall in exchanges and of their violent fluctuations thereafter was, therefore, not felt for a long time. It seems to me that it is being very seriously and drastically felt now; and will continue to be for a long time to come. In other words, the recovery of international trade, which is otherwise clearly in sight, will be seriously impeded, if not long delayed, by this great element of uncertainty in exchange values, which makes of almost all business more or less of a mere speculation.

(9) Even Sir Charles Addis and the Cunliffe Committee seem to expect no immediate return of sterling to par. At least, they laid their programme out for ten years, simply as a provisional measure. Could they have seen the terrific losses which were to take place in British trade, and all over the world, partly if not largely due to the violent dislocation of exchanges, would their conclusion have been the same? In other words, the question seems to me this:

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OF NEW YORK

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OFFICE CORRESPONDENCE

DATE Sept. 1, 1921

TO Governor Strong

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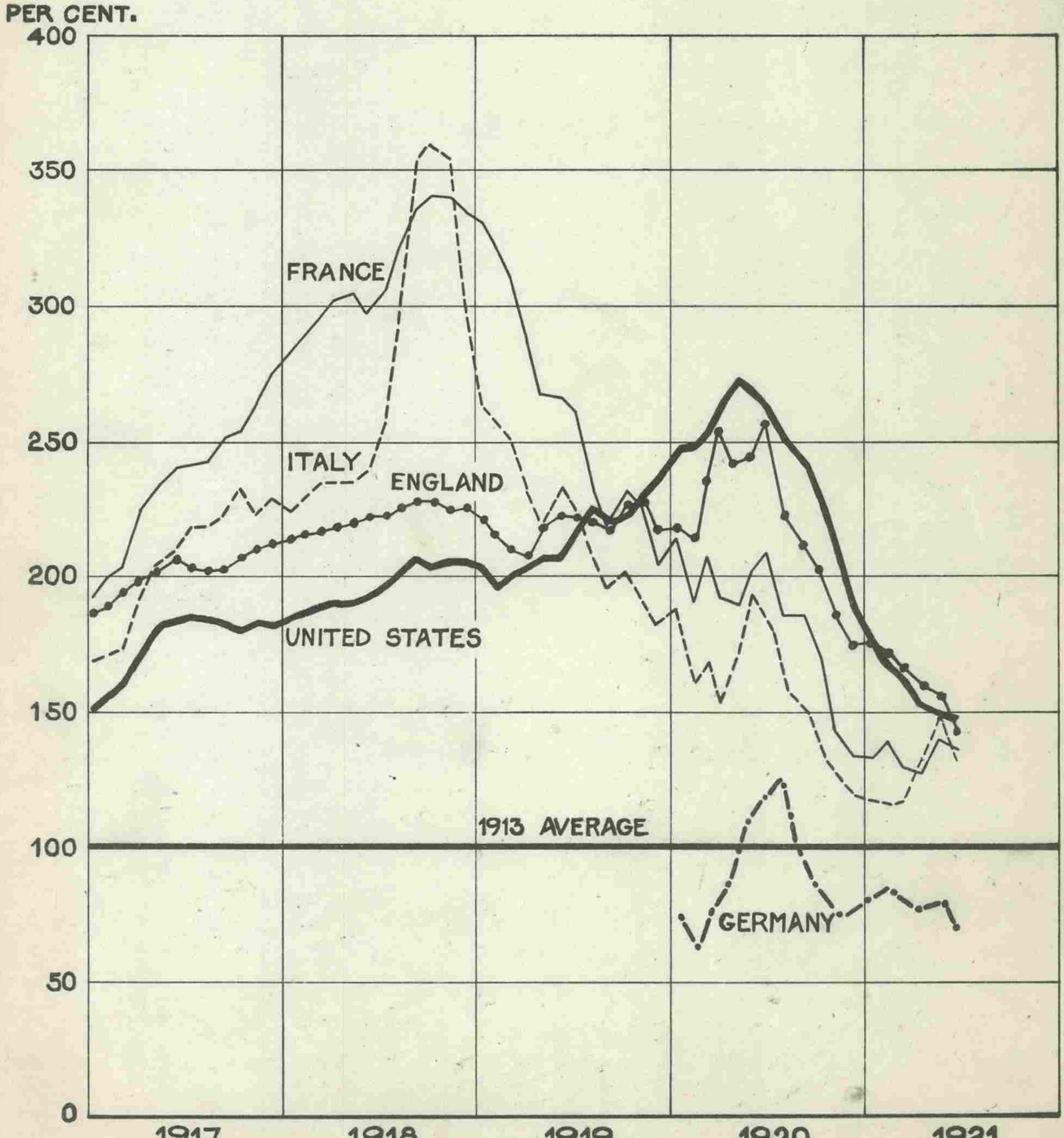

Prices in Different Countries Converted to Dollars
at Current Rates of Exchange

Eng 143
France 136
Italy 132
U.S. 148
Ger. 70

FEDERAL RESERVE BANK
OF NE... YORK

...ESPONDENCE

DATE Sept. 13, 1921

...or Strong

SUBJECT:

...r. Snyder

The doctrine that paper currencies have a definite value, and that this value is pretty accurately registered in the exchanges, is at least as old as that very excellent banker-economist, Mr. David Ricardo. In his "Primciples of Political Economy," third and last edition, 1821, I find this interesting passage:

"Whenever the current of money is forcibly stopped, and when money is prevented from settling at its just level, there are no limits to the possible variations of the exchange. The effects are similar to those which follow when a paper money, not exchangeable for specie at the will of the holder, is forced into circulation. Such a currency is necessarily confined to the country where it is issued: it cannot, when too abundant, diffuse itself generally amongst other countries. The level of circulation is destroyed, and the exchange will inevitably be unfavorable to the country where it is excessive in quantity.

"The comparative value of money in different countries . . . . may also be ascertained by comparing it with some standard common to both countries. If a bill on England for £100 will purchase the same quantity of goods in France or Spain that a bill on Hamburgh for the same sum will do, the exchange between Hamburgh and England is at par; but if a bill on England for £130 will purchase no more than a bill on Hamburgh for £100, the exchange is 30 per cent. against England.

"In England £100 may purchase a bill, or the right of receiving £101 in Holland, £102 in France, and £105 in Spain. The exchange with England is, in that case, said to be 1 per cent. against Holland, 2 per cent. against France, and 5 per cent. against Spain. It indicates that the level of currency is higher than it should be in those countries, and the comparative value of their currencies, and that of England, would be immediately restored to par by extracting from theirs or by adding to that of England.

"Those who maintain that our currency was depreciated during the last ten years, when the exchange varied from 20 to 30 per cent. against this country, have never contended, as they have been accused of doing, that money could not be more valuable in one country than another as compared with various commodities; but they did contend that £130 could not be detained in England unless it was depreciated, when it was of no more value, estimated in the money of Hamburgh or of Holland, than the bullion in £100.

"By sending 130 good English pounds sterling to Hamburgh, even at an expense of £5, I should be possessed there of £125; what

FEDERAL RESE[illegible]E BANK
OF NEW YORK

[illegible]RESPONDENCE

DATE Sept. 13,

[illegible]overnor Strong

SUBJECT:

Mr. Snyder 2

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Sept. 13, 1921

Governor Strong

Mr. Snyder

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"By sending 130 good English pounds sterling to Hamburgh, even at an expense of £5, I should be possessed there of £125; what then could make me consent to give £130 for a bill which would give me £100 in Hamburgh, but that my pounds were not good pounds sterling?--they were deteriorated, were degraded in intrinsic value below the pounds sterling of Hamburgh, and if actually send there, at an expense of £5, would sell only for £100. With metallic pounds sterling, it is not denied that my £130 would procure me £125 in Hamburgh, but with pounds sterling I can only obtain £100; and yet it was maintained that £130 in paper was of equal value with £130 in silver or gold."

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 15, 1921

To Governor Strong

SUBJECT:

FROM Mr. Snyder

This calculation of the Bremen Statistical Amt comes out to the same figure that I had calculated in a very rough way in my letters from Germany.

On this basis the market is now selling outside at less than 40 per cent. of its internal purchasing value. It is a very remarkable situation.

Sept. 15, 1921

Governor Strong | Topics for Governors' Conference

Mr. Snyder

I guess you know my feeling is that pretty near the whole of the Conference ought to be given up to the question that is probably uppermost in your mind, and that is:

I. PRACTICAL STEPS TOWARD THE RESTORATION OF THE GOLD STANDARD.

We are preparing a memorandum for you showing what countries would be in or near a position immediately to restore free gold exchange; and I think it is quite a remarkable list. In other words, it does not seem to me that the question is nearly so difficult as most people imagine. And if the different countries could only be brought to realize the actual situation, the step would be very easy.

Of course, as I see it, the main barrier is England; and that was why I was so sadly in earnest when the Governor and Sir Charles were here. I believe the evidence is very clear:

(a) That the relative value of the currencies of the United States and Great Britain, that is, the value of sterling in gold, has not sensibly changed within the last two years; in other words, that there has been no improvement whatever in the exchange value of sterling; and

(b) I am pretty firmly of the belief that this will subsist for the next two or three years, at least--for the reasons set forth in the memo. I gave you just before you went to Bar Harbor.

Therefore do I believe that it is wrong, immoral, suicidal and detrimental to leave this, the premier exchange unit of the world, to be the football of speculators, to the serious disturbance of trade and the practical blocking of most long-time contracts.

II. OUR MOUNTAINOUS LOAD OF GOLD.

At the present time, as near as one can calculate it, the expansive power of the Federal Reserve System is very near to 10 billions; or, in other words, near to two-thirds of the present outstanding loans of the member banks of the system. It seems to me that this is an appalling prospect, in view of the tremendous political and commercial pressure for inflation.

I do not believe it is clearly recognized that this expansive capacity is now greater than anything ever known in this country since the establishment of the national banking system.

In the Treasury and Federal reserve banks is at least a billion dollars of redundant gold; and if we do not find some way to take care of it, it is going to result in another wild boom and a still greater smash than we have had in the last two years.

Sept. 15, 1921

Governor Strong

Mr. Snyder 2

As I see it, all the powerful interests which profit by high prices will say, if you attempt to put back the rediscount rate to 7 per cent: "You did this once in 1920, and see the result."

Further, I do not believe, when the boom gets started again, that a 7 per cent. bank rate will be adequate to control it.

So far as I can see, the only means, politically feasible, of getting rid of this mountain of gold is for the leading banks of the country to finance an interallied loan and distribute this redundant gold among the nations which will most need it. Then establish the gold exchange standard, which has worked with such remarkable success in India.

As to the present prospects of the gold supply, and monetary needs, Prof. Cassel has an interesting suggestion in his new paper on "The World's Monetary Problems," a copy of which he has just sent me, and which I am enclosing to you herewith.

[Snyder.]

MEMORANDUM

ON

CURRENT STATISTICS OF UNEMPLOYMENT

STATISTICS DEPARTMENT
FEDERAL RESERVE BANK OF NEW YORK
SEPTEMBER 21, 1921

C O N T E N T S

T A B L E S

D I A G R A M S

- - - - - - - -

Current Figures on Unemployment

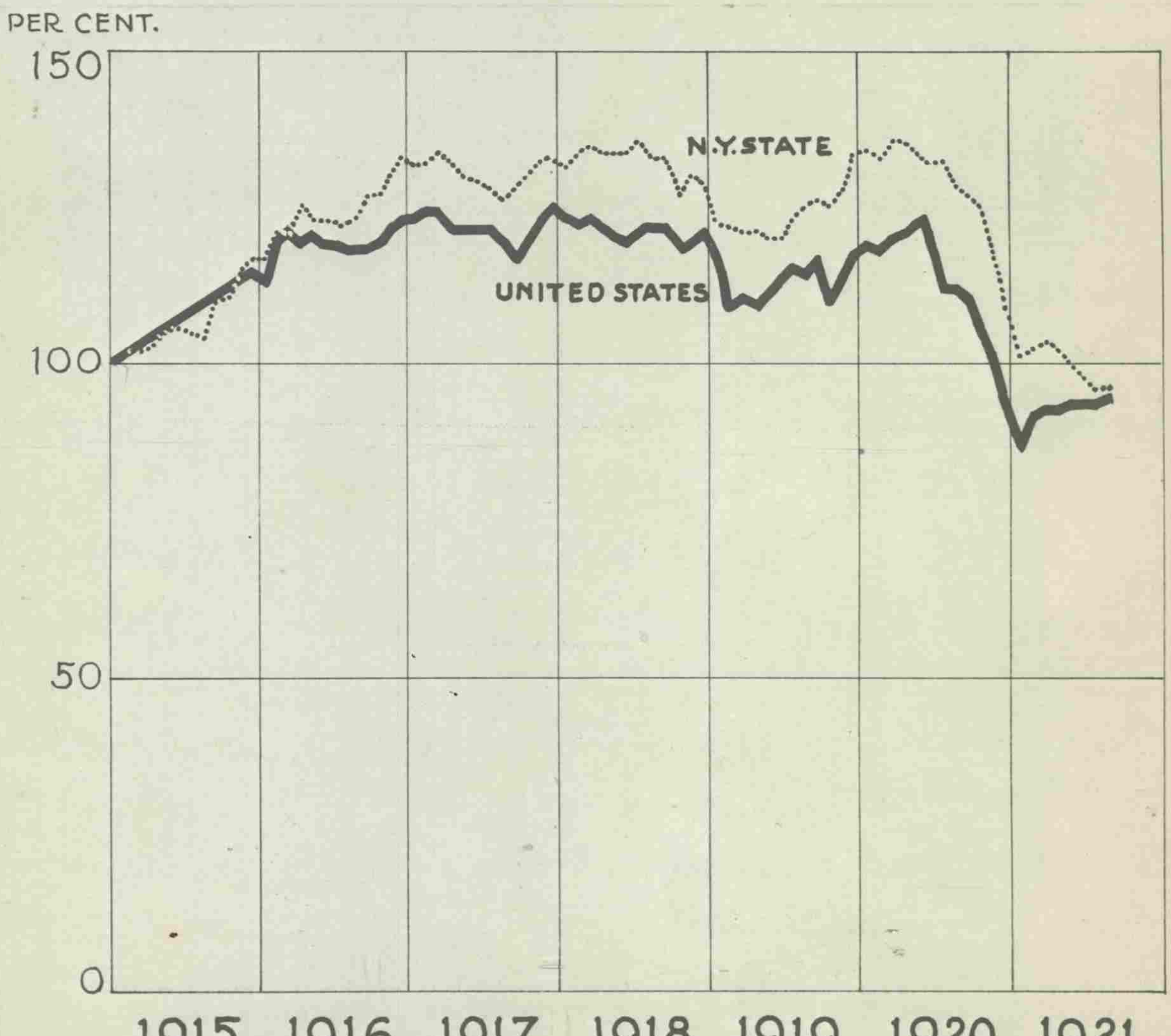
The only available figures on unemployment which have been carried forward for a sufficient period of time to give a significant index of the current situation are those reported by the United States Department of Labor and the New York State Department of Labor. These two agencies have been collecting figures since 1915 showing the numbers of persons on the payrolls of selected industrial establishments in the United States and in New York State. Figures in each case cover establishments employing about 600,000 workers in the early months of 1920. The New York State figures are therefore much more nearly complete than are the Department of Labor figures.

Abt. 1900 ?

The Statistics Department of this Bank has computed indices from the figures reported by these two agencies, for the different industries upon which they make reports, and for all of the industries taken together. Figures for all industries are shown in the accompanying diagrams, the data for December, 1914 being taken as the base of 100 per cent in each case. The diagrams show that in general the number of persons employed in the industrial establishments covered is now somewhat less than during the depression of 1915 and about 25 to 30 per cent less than in the early part of 1920. During the war years 1917 and 1918 employment was about 20 per cent higher than in 1914. There was a dip in the curve in 1919, but it reached a peak in 1920. These findings were in general substantiated by a survey of employment and wages undertaken by the Federal Reserve Banks last April. The results were reported in the May 1 number of our Monthly Review of Credit and Business Conditions. The notable unique feature about this summary was that many of the returns distinguished between the

---- N.Y. State Industrial Com'n
━━ Bureau of Labor Statistics –

abt 600,000. in Each.



Number of persons employed in selected industrial establishments in New York State and in the United States. (Figures for December, 1914 = 100 per cent.)

employment of males and of females. The returns indicated that just as large a proportion of men as of women had been included in staff reductions of the factories of this State.

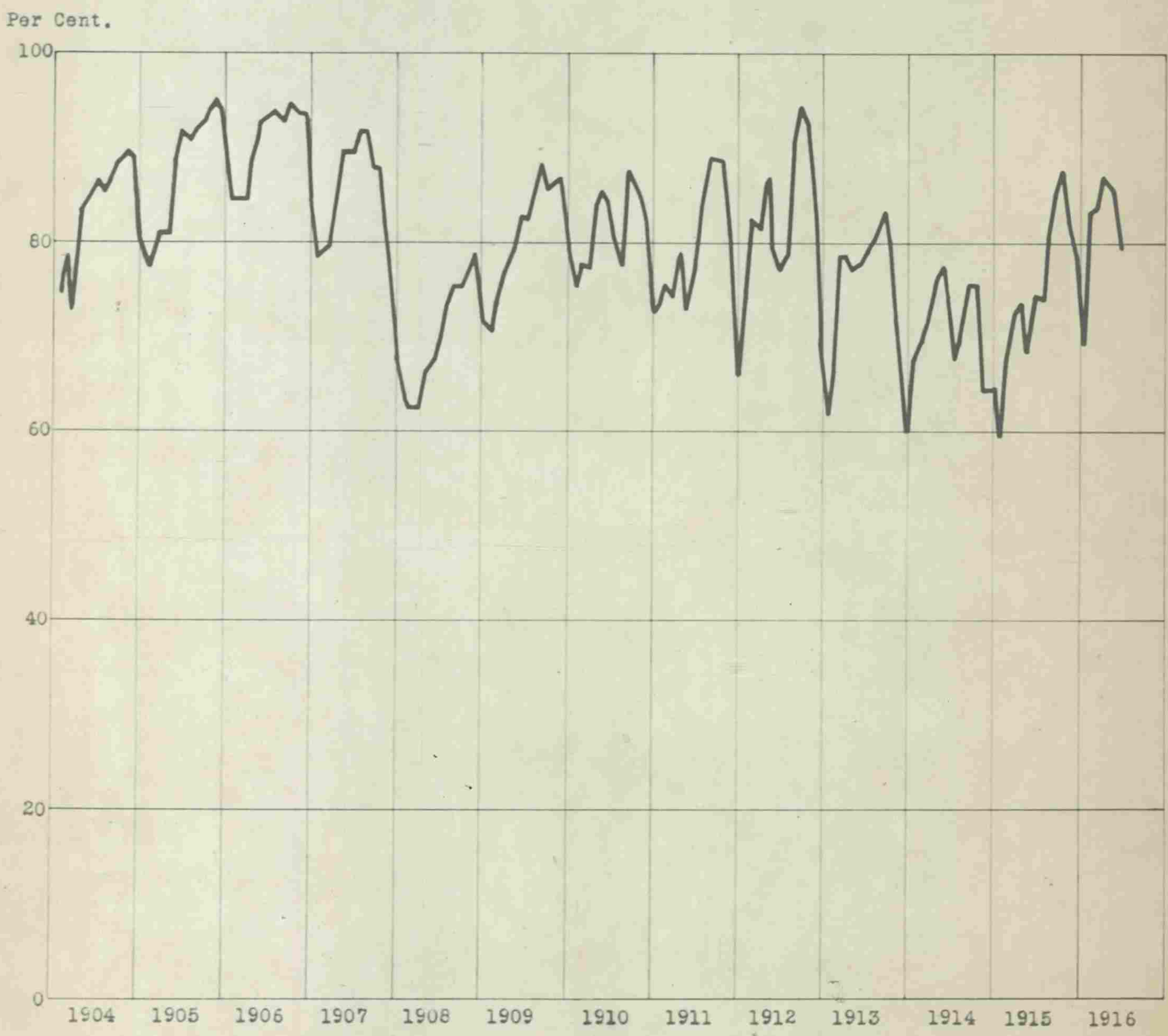
The data reported for the past six or seven years are not sufficient to form a basis for computing an index of seasonal variation, so that normal seasonal variations may be allowed for in the index. The best available figures which we have showing the seasonal variation in employment are derived from reports made from the years 1904 to 1916 to the New York State Department of Labor by trade unions of New York State. These reports show for the end of each month the percentage of trade union members who were idle. Reports were received from eleven representative industries for nearly thirteen years. The different industries showed a wide range in their seasonal tendencies. The percentage of union members idle runs from 3 or 4 per cent to as high as 45 or even 50 per cent. In 1908 in the early months of the year between 40 and 50 per cent of the union workers in the clothing and textile trades were reported idle and in the same months more than 50 per cent of the union workers in the building trades were idle. The accompanying diagram shows for all trades the average percentage of workers who were employed each month during the years covered by the reports and the following table shows the average seasonal variation in the percentage of union members employed. The maximum period of employment appears to be the later part of the summer and the maximum period of unemployment to be midwinter. The figures indicate a normal seasonal improvement in the employment conditions between July and August and between August and September.

Table 1

AVERAGE PERCENTAGE OF MEMBERS OF NEW YORK STATE TRADE UNIONS EMPLOYED IN DIFFERENT MONTHS OF THE YEAR, FROM REPORTS TO THE NEW YORK STATE DEPARTMENT OF LABOR - 1904 - 1916

Month	Per cent employed
January	71.6
February	75.5
March	77.1
April	81.9
May	81.2
June	81.6
July	82.1
August	84.4
September	86.6
October	85.9
November	82.0
December	73.6

The normal seasonal range between the maximum of employment and of unemployment appears to be about 17 per cent. Between the summer of 1907 and the early months of 1908, however, there was a range of 32 per cent. The range between the maximum number employed last summer in factories of New York State or of the United States and the number employed this spring appears no greater than the variation which occurred in 1908, but somewhat greater than that which took place in 1915 among union members in New York State. All of our current figures and these seasonal indices deal in the main with workers in industrial establishments. We have no adequate current figures showing the number of persons employed on farms, in personal and domestic service or in professional service or in other occupations.



Percentage of members of unions in 11 industries and occupations in New York State employed at the end of each month.

Direct Evidence of Absorption of Persons Released from Industry

In the past twelve months there have been released from industrial establishments between 3,000,000 and 4,000,000 persons and considerable numbers from transporation, clerical work, and mining. Although the main reductions in forces took place some months ago, there have up to this time been few evidences of distress on the part of workers. This office has been in constant touch with the charitable agencies of New York City and with a number of employment agencies. They have been in agreement in indicating that there have been no unusual appeals for assistance or for positions until the past two or three months and even at this time the number of applicants for assistance is not as large as in most periods of industrial depression. This is illustrated by the following table of the number of families under the care of the Charity Organization Society of New York City.

Table 2

NUMBER OF FAMILIES UNDER CARE OF CHARITY ORGANIZATION SOCIETY OF NEW YORK AT THE END OF THE MONTH

Year	June	July	August	September
1914	2,769	2,797	2,794	2,668
1915	3,289	2,966	2,675	2,410
1921	2,110	2,044	1,951	

The number of homeless men applying for aid at the Joint Application Bureau is slightly larger than in 1914-15, as shown in the following table:

Table 3

NUMBER OF HOMELESS MEN WHO APPLIED FOR AID AT JOINT APPLICATION BUREAU

Year	June	July	August	September
1914	662	685	591	619
1915	674	500	492	473
1921	607	700	718	

Table 4 compares the orders for workers with the number of persons registering for employment with the employment agencies maintained by the New York State Department of Labor. The figures are clearly subject to rather wide fluctuation but indicate the several trends. The Department of Labor reports that the percentage of orders to applicants would be even smaller in recent months but for the fact that many who visit the employment offices do not make written application for work when there are no positions open immediately.

Table 4

APPLICATIONS FOR WORK, ORDERS FOR WORKERS, AND PERCENTAGE OF ORDERS TO APPLICATIONS

NEW YORK STATE EMPLOYMENT OFFICES
(Figures in thousands)

	1916			1917			1918		
	Applications	Orders	Per Cent.	Applications	Orders	Per Cent.	Applications	Orders	Per Cent.
January	5.8	4.2	73	7.3	8.3	114	7.8	8.6	110
February	5.2	4.2	82	5.8	6.9	119	7.1	8.4	119
March	5.9	6.1	103	7.0	8.9	127	9.0	13.1	147
April	5.0	6.8	136	8.9	10.9	122	10.3	16.9	164
May	5.9	8.0	136	9.6	11.4	119	12.8	23.9	186
June	5.8	7.4	127	8.3	10.5	126	12.2	24.2	198
July	4.5	6.8	149	7.9	10.5	132	38.5	63.3	165
August	3.8	6.9	82	5.3	9.7	182	40.6	91.0	224
September	5.8	7.8	148	8.0	10.6	132	73.9	140.2	190
October	4.4	9.0	203	5.8	10.5	180	65.1	168.8	259
November	4.4	8.4	191	4.9	8.4	171	59.4	122.3	206
December	5.7	7.3	130	6.2	7.3	117	71.1	99.2	139

	1919			1920			1921		
January	82.4	93.7	114	29.9	33.0	110	24.6	14.6	59
February	48.2	50.3	105	22.1	25.5	116	23.8	14.1	59
March	37.6	42.4	113	24.1	27.8	115	23.0	15.9	69
April	36.5	45.6	125	27.8	32.3	116	31.2	23.2	74
May	57.4	80.6	140	24.6	27.1	110	22.7	16.5	*73
June	51.1	68.7	135	34.2	36.9	108	22.7	16.3	71
July	43.0	52.8	123	25.1	25.0	100	17.4	13.9	80
August	39.0	69.4	178	15.1	25.6	168	17.6	12.1	69
September	42.1	69.7	166	24.7	28.0	114			
October	17.2	25.8	150	19.4	33.2	171			
November	21.3	30.4	143	12.2	17.6	144			
December	21.9	22.2	101	25.1	17.0	68			

* - During May a number of offices were discontinued.

Table 4

APPLICATIONS FOR WORK, ORDERS FOR WORKERS, AND PERCENTAGE OF ORDERS TO APPLICATIONS

NEW YORK STATE EMPLOYMENT OFFICES
(Figures in thousands)

	1916			1917			1918		
	Applications	Orders	Per Cent.	Applications	Orders	Per Cent.	Applications	Orders	Per Cent.
January	5.8	4.2	73	7.3	8.3	114	7.8	8.6	110
February	5.2	4.2	82	5.8	6.9	119	7.1	8.4	119
March	5.9	6.1	103	7.0	8.9	127	9.0	13.1	147
April	5.0	6.8	136	8.9	10.9	122	10.3	16.9	164
May	5.9	8.0	136	9.6	11.4	119	12.8	23.9	186
June	5.8	7.4	127	8.3	10.5	126	12.2	24.2	198
July	4.5	6.8	149	7.9	10.5	132	38.5	63.3	165
August	3.8	6.9	82	5.3	9.7	182	40.6	91.0	224
September	5.8	7.8	148	8.0	10.6	132	73.9	140.2	190
October	4.4	9.0	203	5.8	10.5	180	65.1	168.8	259
November	4.4	8.4	191	4.9	8.4	171	59.4	122.3	206
December	5.7	7.3	130	6.2	7.3	117	71.1	99.2	139

	1919			1920			1921		
January	82.4	93.7	114	29.9	33.0	110	24.6	14.6	59
February	48.2	50.3	105	22.1	25.5	116	23.8	14.1	59
March	37.6	42.4	113	24.1	27.8	115	23.0	15.9	69
April	36.5	45.6	125	27.8	32.3	116	31.2	23.2	74
May	57.4	80.6	140	24.6	27.1	110	22.7	16.5	*73
June	51.1	68.7	135	34.2	36.9	108	22.7	16.3	71
July	43.0	52.8	123	25.1	25.0	100	17.4	13.9	80
August	39.0	69.4	178	15.1	25.6	168	17.6	12.1	69
September	42.1	69.7	166	24.7	28.0	114			
October	17.2	25.8	150	19.4	33.2	171			
November	21.3	30.4	143	12.2	17.6	144			
December	21.9	22.2	101	25.1	17.0	68			

* - During May a number of offices were discontinued.

It is generally reported that a great many workers who have been released from industry have gone to the farm, have taken up some other type of employment, have emigrated, or in the case of young people, have gone back to school. There are few definite figures to substantiate these reports. Perhaps the most reliable is the record of school enrollments this year for New York City. It is reported by the President of the Board of Education that the increase in registrations in September 1921 is more than 35,000 greater than the normal increase and that the increase has been particularly heavy in the high schools. New York City has in the neighborhood of 5 or 6 per cent of the total school enrollment of the country. If something approaching the same rate of increase takes place in other parts of the country, the public school attendance this year may well be more than half a million greater than last year. A great many who would normally be entering industry this year will continue in school and some who have been at work will go back. Other figures showing the absorption of workers are reported by Dun's for the number of firms in business in July, 1921. In spite of a large number of failures during the past months, the number of firms in business shows a sharp increase to 1,927,000 as compared with 1,821,000 last year. This may well be accounted for by the setting up of small businesses by persons who were released from industry and had been able to save up some capital during the past few years.

Letters have been written to fifteen or twenty concerns in this part of the country requesting any records they may have as to what has become of persons released from industry. Their reports will be embodied in a separate memorandum.

Indirect Evidence of Absorption of Persons Released from Industry

Preliminary figures which have been reported by the United States Bureau of the Census for occupations as of January, 1920 indicate a radically different industrial situation from that of the last census period. The evidence goes to show that 1920 was not, contrary to general belief, a year of extraordinarily large employment. That in fact a smaller proportion of the population over ten years of age was probably gainfully employed than in 1910, and a considerable number of occupations were undermanned.

The census of occupation figures for 1920 thus far have been reported for only twenty states and a number of these are small or largely agricultural. The record is consistent, however, in showing that the percentage of workers employed in agriculture was smaller in 1920 than in 1910 and that the percentage employed in mechanical and manufacturing industries was larger. In 1910 the average percentage of workers employed in agriculture in these states was 40.5, while in 1920 the figure was 37.4. The average percentage employed in manufacturing in 1910 was 22, and in 1920 23.3. There were also increases in the percentages employed in clerical occupations, professional service, public service and trade, and decreases in the percentages employed in mining, transportation, and domestic and personal service. The following table shows these percentages:

Table 5

AVERAGE PERCENTAGES OF TOTAL GAINFULLY EMPLOYED WORKERS IN PRINCIPAL OCCUPATIONS
TWENTY STATES

Occupation	1910	1920
Manufacturing and mechanical industries	22.1	23.3
Agriculture	40.5	37.4
Trade	7.5	8.4
Domestic and personal service	9.3	7.6
Transportation	7.4	7.3
Professional service	4.2	5.2
Clerical	2.9	4.6
Mining	4.6	4.2
Public service	1.4	2.0

In this and the following tables based upon advance releases for 1920, percentages represent averages of the percentages for different states. This method was used because in the absence of complete data for all states it was thought that it would give a more typical representation than percentages based on aggregates. Figures for the following states are included:

Alabama
Arkansas
Arizona
California
Colorado
Connecticut
Delaware
Florida
Georgia
Idaho

Maine
Mississippi
Montana
Nevada
New Hampshire
New Mexico
North Dakota
South Dakota
Vermont
Wyoming

The figures would appear to indicate that in agriculture, and domestic and personal service in particular there was, under normal conditions, considerable possibility of absorbing workers.

More striking than the percentage distribution of workers between the different occupations is the change in the proportion of the population which was gainfully employed. Since the year 1880 there has been a continued tendency for a larger proportion of the population to be reported by the census as gainfully employed. The increase is largely due to women's entering industrial, clerical and professional occupations. The changes from 1880 to 1910 are shown in table 6.

Table 6

PER CENT OF POPULATION ENGAGED IN GAINFUL OCCUPATIONS

Year	Male	Female	Both sexes
1880	57.8	10.7	34.7
1890	60.2	13.1	37.2
1900	61.2	14.3	38.3
1910	63.6	18.1	41.5

In 1910 41.5 per cent of the population were recorded as gainfully employed. One would have anticipated that this percentage for 1920 would have been largely increased as the demands of war industries called for larger numbers of workers. The exact contrary appears to be the case, however. For twenty states and for eighty-one important cities figures of tables 7 and 8 are in agreement in indicating that the proportion of males of ten years or over who were gainfully employed was somewhat smaller in 1920 than in 1910 and the proportion of females of ten years or over who were gainfully employed showed a much smaller increase between 1910 and 1920 than in the previous decade. The figures of table 7 probably show a lower percentage for 1920 than would be true for the United States as a whole because the rural states are heavily represented and the movement of workers has been away from the farm. On the other hand, the city percentages are probably proportionately high.

Table 7

AVERAGE PERCENTAGE OF THE POPULATION OF TWENTY STATES WHICH WAS GAINFULLY EMPLOYED

Year	Per cent employed
1880	41.5
1890	41.7
1900	40.7
1910	43.8
1920	39.9

Table 8

AVERAGE PERCENTAGE OF THE POPULATION OF EIGHTY-ONE CITIES TEN YEARS OF AGE AND OVER WHO WERE GAINFULLY EMPLOYED

Year	Males	Females
1910	82.2	26.6
1920	81.7	27.1

While our current employment figures for industries show a peak in 1920, it is clear that taking the country as a whole, the proportion of the population employed was not exceptionally large. This divergence of figures may well be accounted for in a number of ways. In the first place, the preceding tables have made it clear that the wage earning population was quite differently distributed between occupations in 1920 and in 1910. There was a larger proportion in mechanical and manufacturing industries, while agriculture, domestic and personal service, mining and transportation engaged smaller proportions of the population. The lower figure for the total percentage of wage earners to the entire population must be accounted for in some other way, however.

Some evidence on this point is found in the figures reported by the United States Commissioner of Education for school enrollment and attendance. Between 1910 and 1918, (1920 figures are not yet available) there was an increase of nearly three million in the number of children in average daily attendance in the public day schools of the United States. This is an increase of more than 21 per cent and may be compared with an increase of about 15 per cent in the total population between 1910 and 1920. In other words, the increase in the number attending public school was not far short of 1,000,000 greater than might have been expected from the normal growth in the population. The growth was most rapid in the years 1914-15, which were years of comparatively large unemployment. If the data were carried to 1920 and private school and college enrolment included, the figure would probably be well over 1,000,000. A part of this increase is undoubtedly due to better school facilities and attendance laws, but a large part may be ascribed to longer school attendance before beginning work.

What seems to have occurred is this: the number of women going into business and industry has continued to increase, but this gain in the number of wage earners has been offset by a lengthening of the period of school attendance. The larger school attendance was favored by the difficulty in securing positions in 1914 and 1915, but was undoubtedly further favored by the high wages of the of the war years.

A still further element in the arrest of the tendency toward an increase in the proportion of the population gainfully employed may be found in restricted immigration during the past few years, as in general there is a high proportion of wage earners among immigrants.

The full significance of these figures probably cannot be determined until more complete data are available. The figures do, however, appear to indicate in the first place, that the present situation offers an opportunity for a redistribution of workers among the occupations which may in large measure offset industrial unemployment. Evidence for believing that this has already taken place to some extent has been submitted above.

In the second place, these figures appear to have some significance in considering the effect of unemployment on the well-being of the family. If the number of workers per family had been extraordinarily large in 1920, unemployment could have been more easily borne than if only the normal number of workers per family had been employed.

In 1910 there were approximately twenty million families in the United States and thirty-eight million wage earners, an average of 1.9 wage earners to a family. It seems likely that the final figures for 1920 will show a slight reduction in this ratio. The seriousness of unemployment is further enhanced by the increase in the standard of living since 1910. The evidence is clear that children are staying in school longer and it seems probable that in other ways the standard of living has been raised. Some of these gains in the standard of living will undoubtedly be retained, even at the sacrifice of what have been considered necessities.

Conclusion

1. The available figures indicate that there now exists severe industrial unemployment.

2. Industrial unemployment has been offset in some measure by the return of workers to occupations in which they were engaged before war pressure called them into industry.

3. As a result it appears that while there are now many calls for charitable assistance, the number of such calls is thus far somewhat smaller than during the corresponding months of 1914-1915.

4. The year 1920 was not a year of extraordinary employment. A number of occupations were considerably undermanned and a reasonable return of business activity would appear likely to result in a shortage rather than a surplus of workers.

6. In the meantime, families which have become accustomed to a higher standard of living are likely to be in need of some type of assistance.

[Snyder]

EMPLOYMENT IN

INDUSTRIAL ESTABLISHMENTS

IN NEW YORK STATE

AND IN THE

UNITED STATES

STATISTICS DEPARTMENT
FEDERAL RESERVE BANK OF NEW YORK
SEPTEMBER 24, 1921

C O N T E N T S

D I A G R A M S

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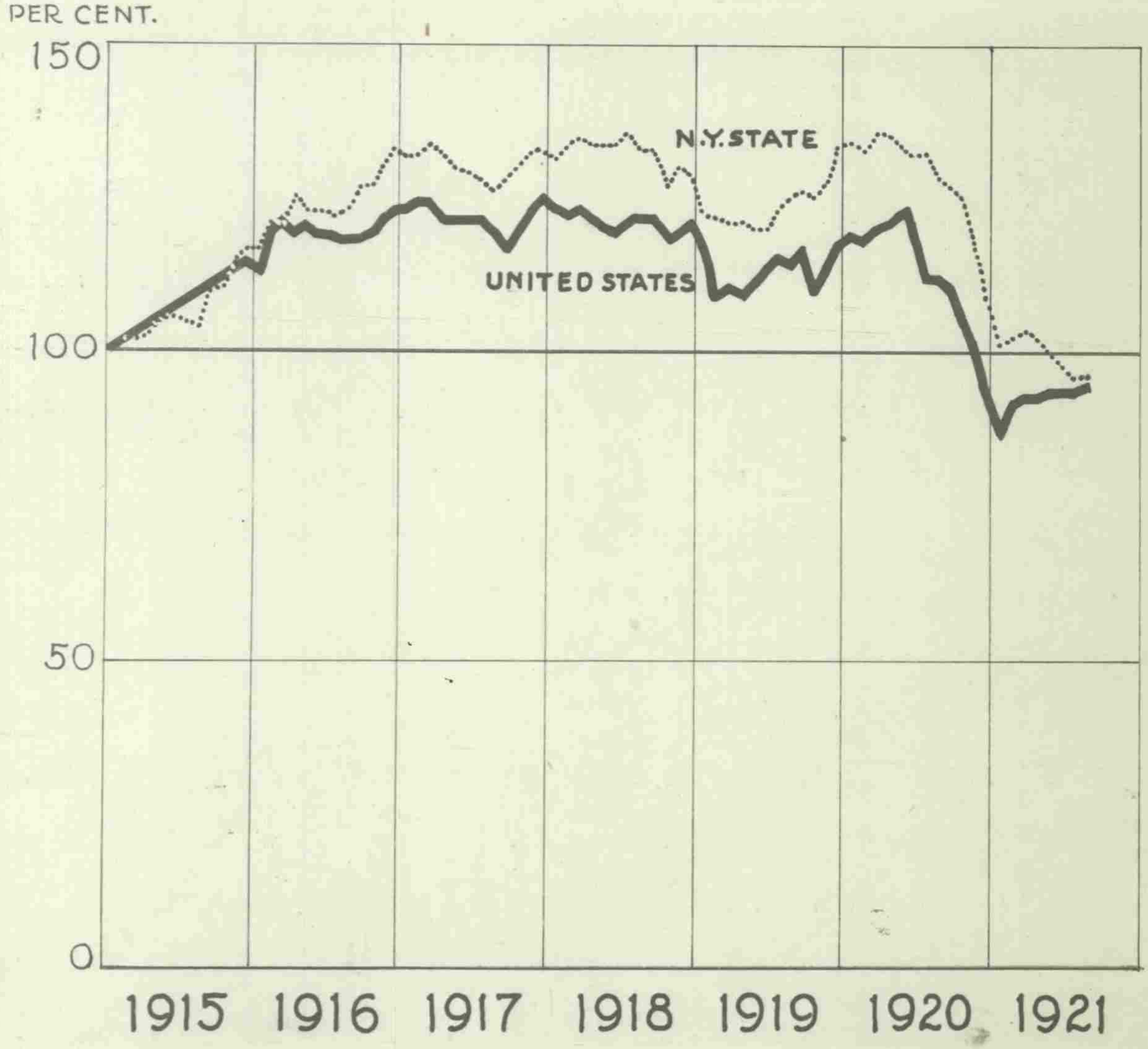
Since 1914 the New York State Department of Labor has been collecting figures for the number of persons on the payrolls of representative industrial establishments in New York State employing in the neighborhood of 600,000 workers in 1920. Returns have been received from substantially the same establishments each month since 1914. From these figures index numbers have been computed, taking the figures for December, 1914 as a base of 100 per cent.

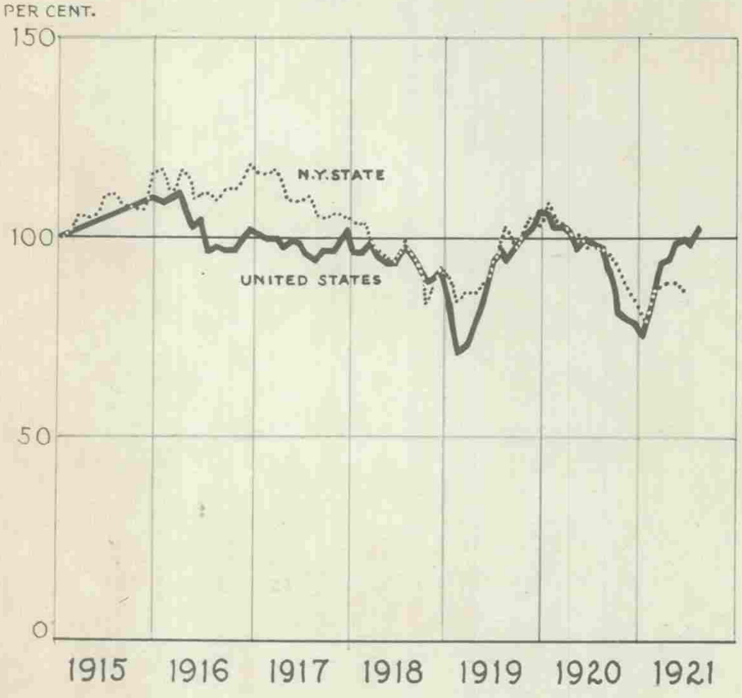
The United States Department of Labor has been gathering somewhat similar figures from industrial establishments throughout the country employing about 600,000 workers. In the collection of these figures, however, there have been a good many changes in the reporting firms and in order to place the data in comparable form, the Department of Labor has prepared tables giving for identical establishments the number of workers reported for the current month, the preceding month and the corresponding month of the previous year. From these figures this Bank has computed index numbers of employment on a December, 1914 base. The indices for both New York State and the country as a whole are presented in the following series of diagrams.

The figures for New York State cover a larger proportion of the total number of industrial workers of the State than do the figures of the Department of Labor for the country as a whole, and the indices are therefore more closely representative of general conditions in the State than are the Department of Labor figures of conditions in the country as a whole.

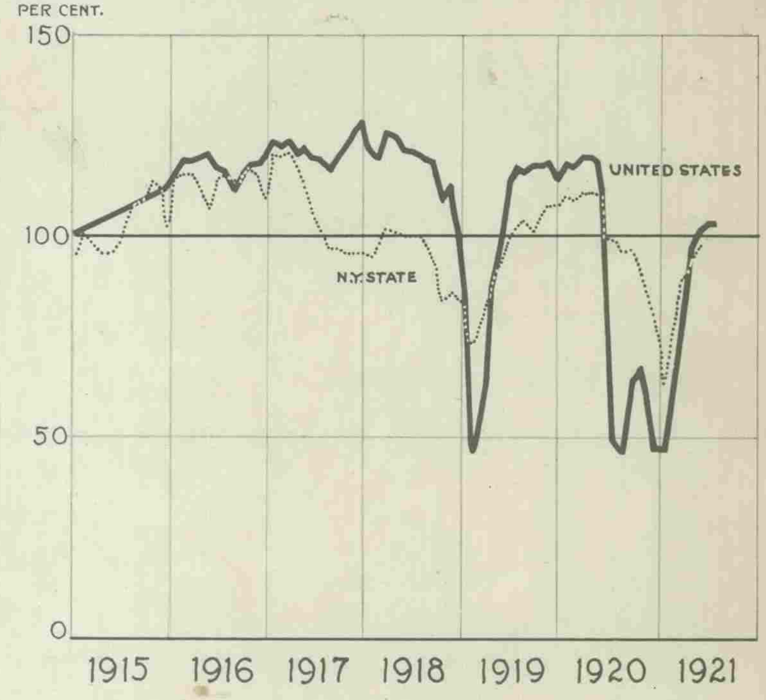
The total index number for the United States has been computed from the indices for different industries, weighting the figures for each industry in accordance with the number of workers in that group as reported by the census. The New York State totals are likewise weighted by the numbers of workers in the different industries.



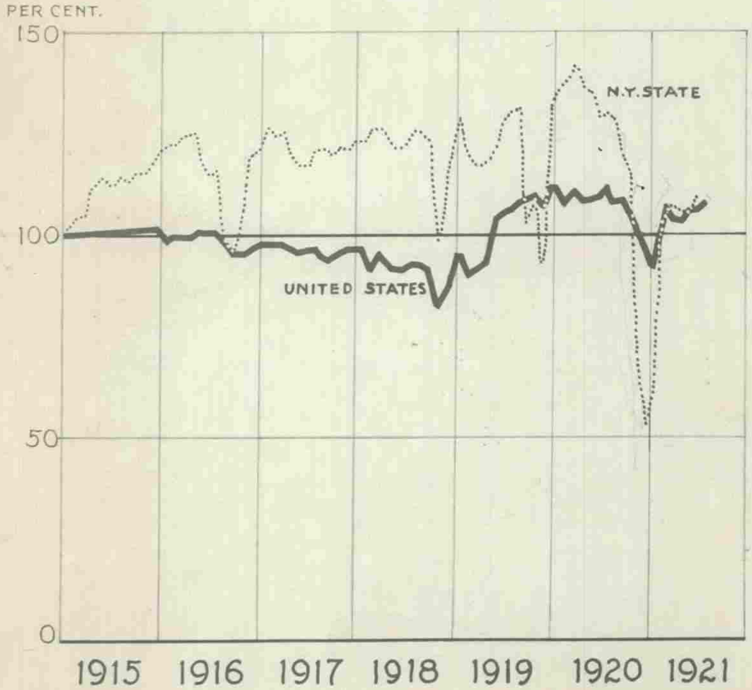
Number of persons employed in selected industrial establishments in New York State and in the United States. (Figures for December, 1914 = 100 per cent.)



COTTON FINISHING



WOOLEN MANUFACTURING



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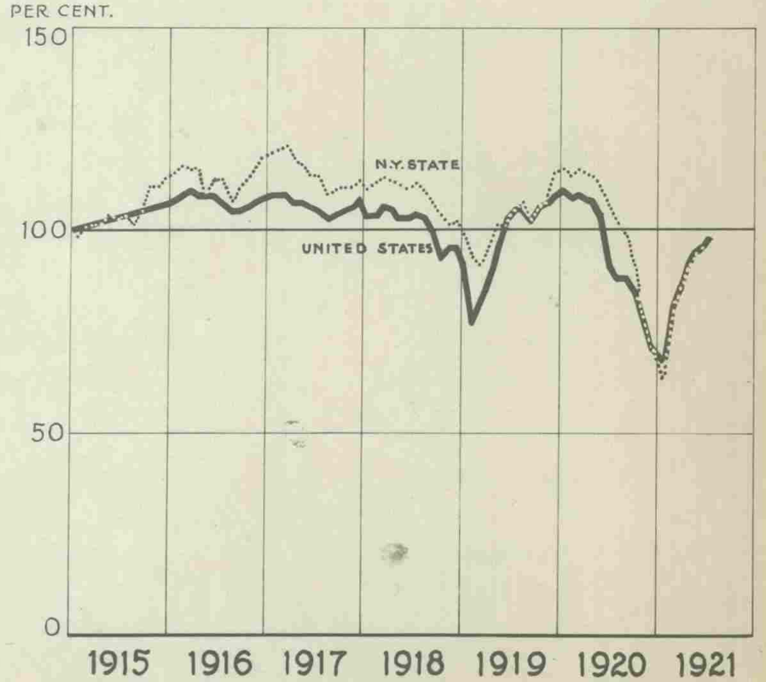
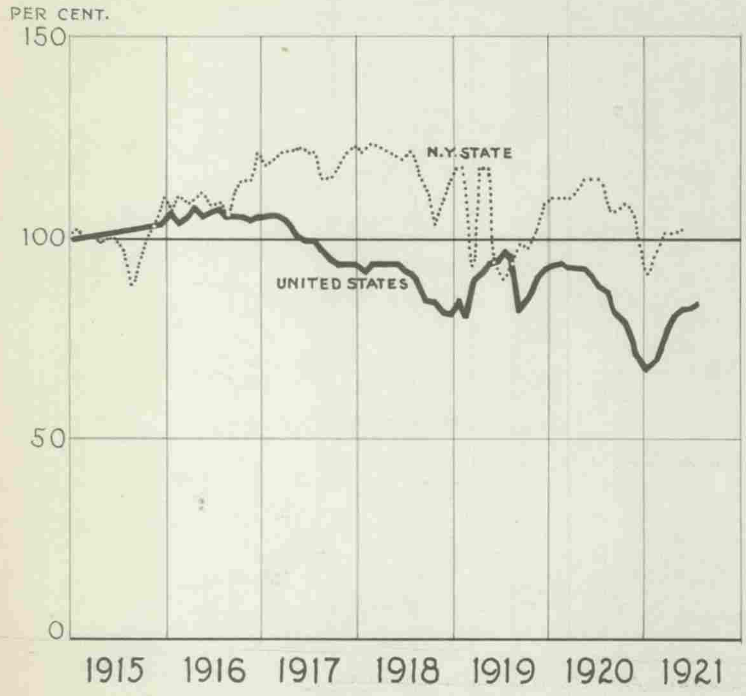
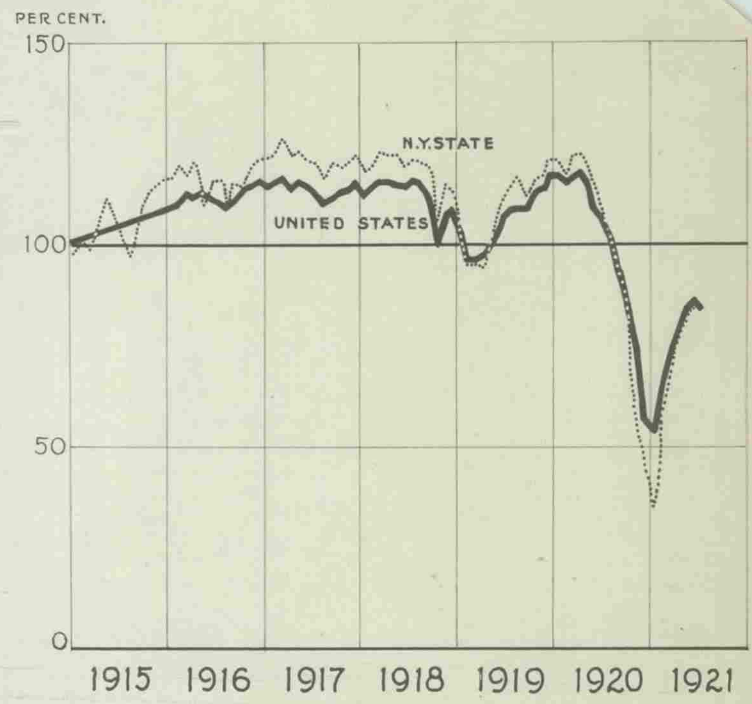


ALL TEXTILES



SILK MANUFACTURING



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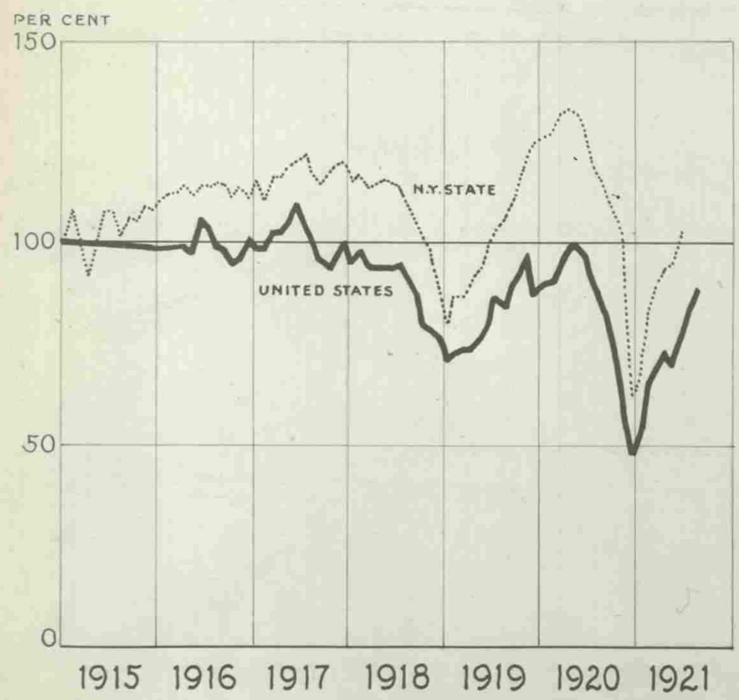
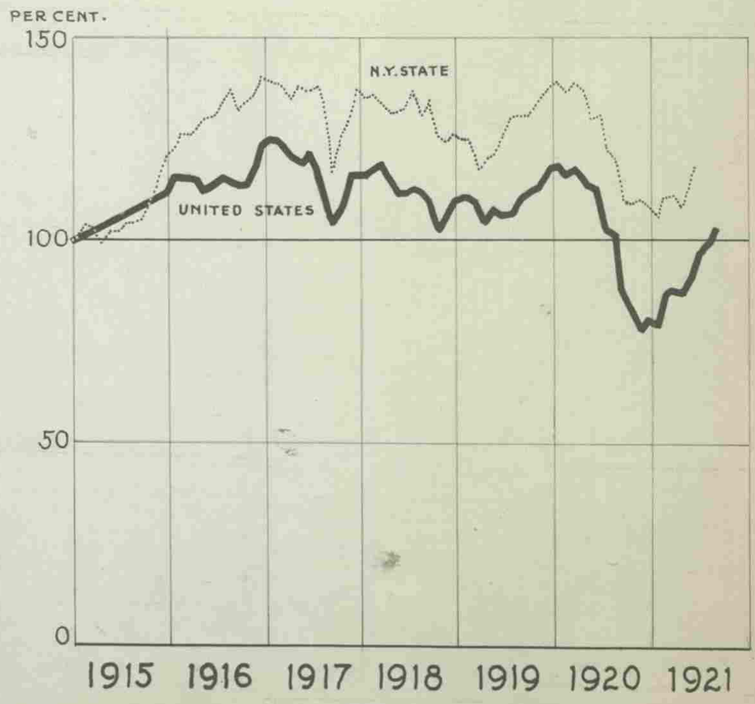
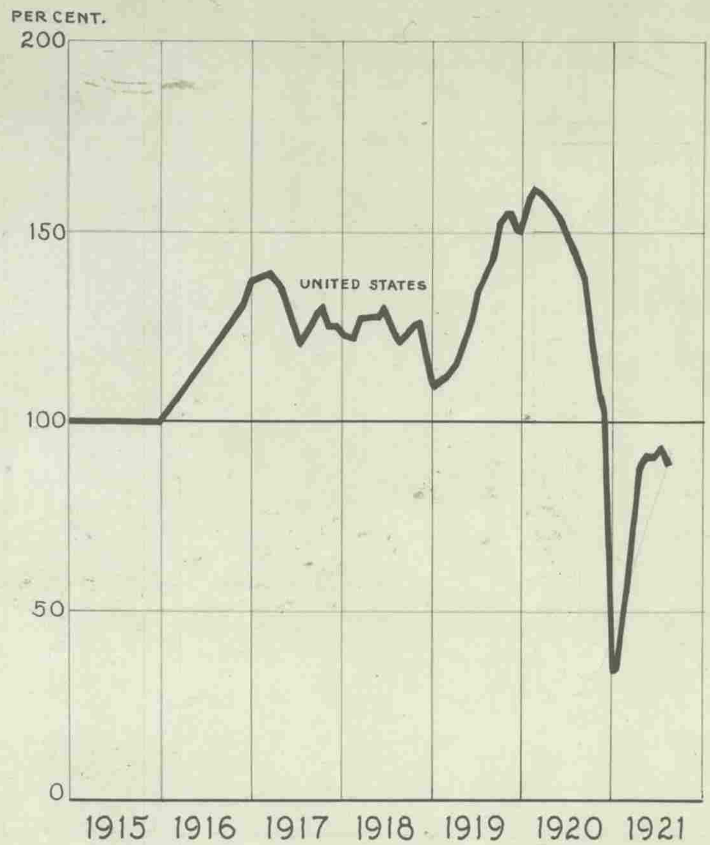


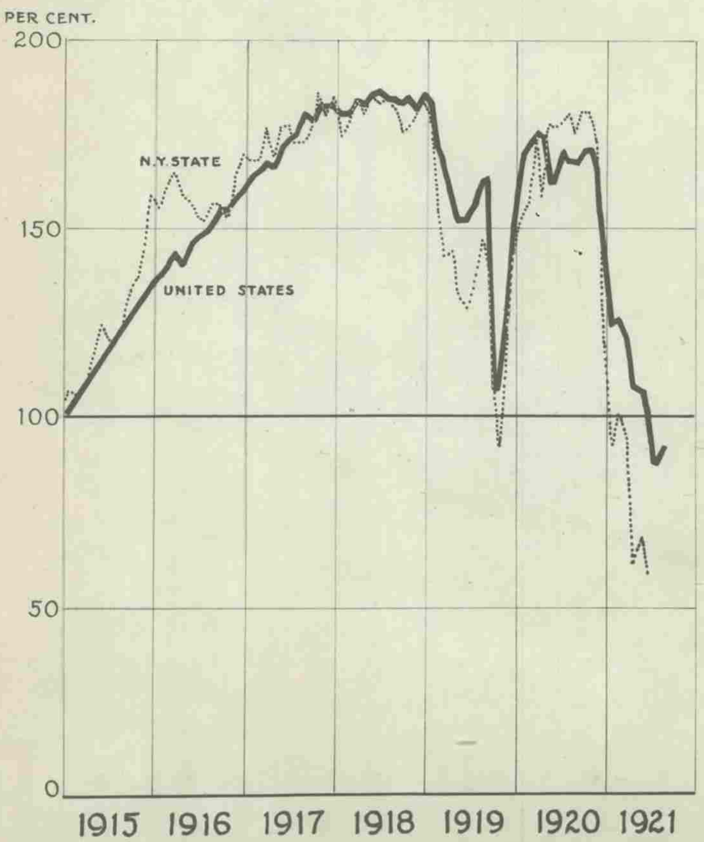
MENS READY MADE CLOTHING



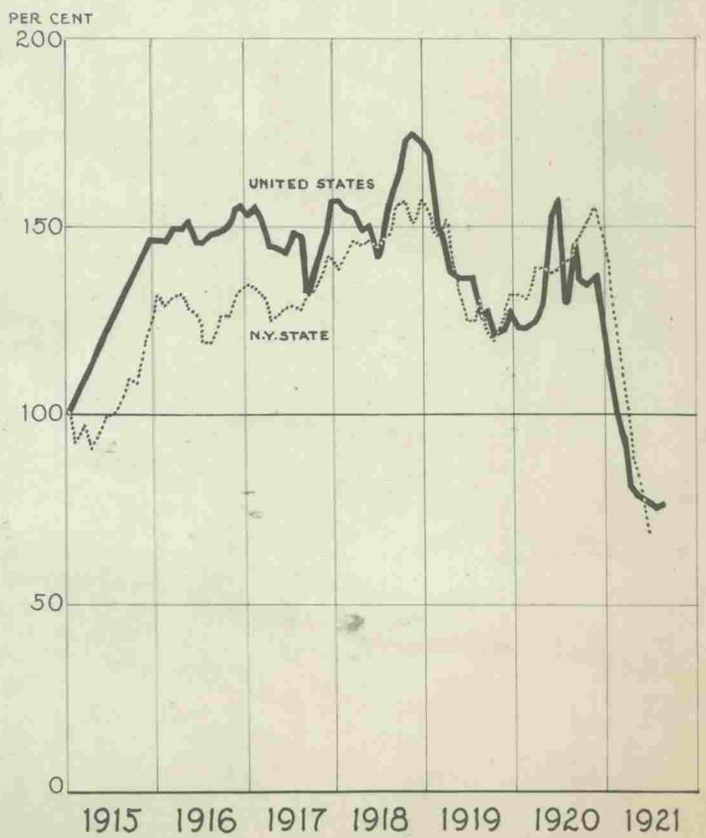
BOOTS & SHOES



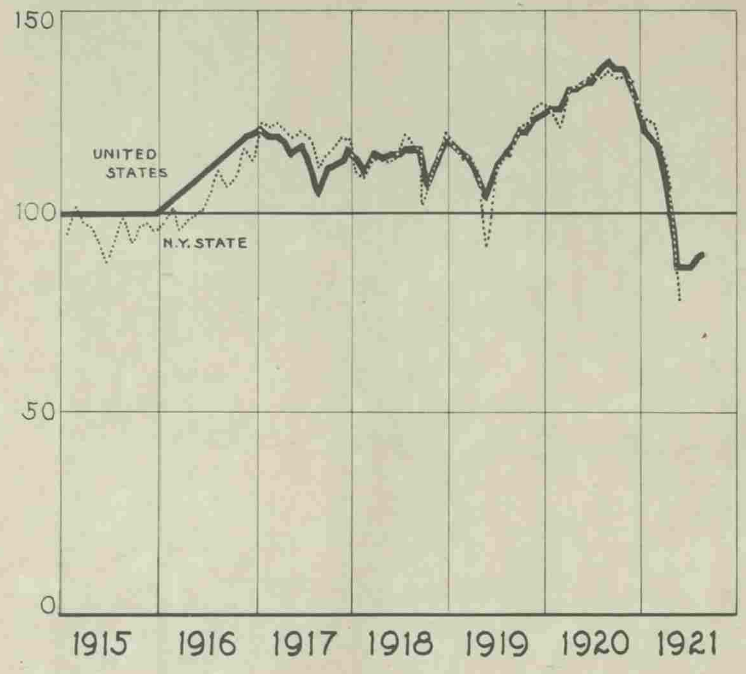
AUTOMOBILE MANUFACTURING



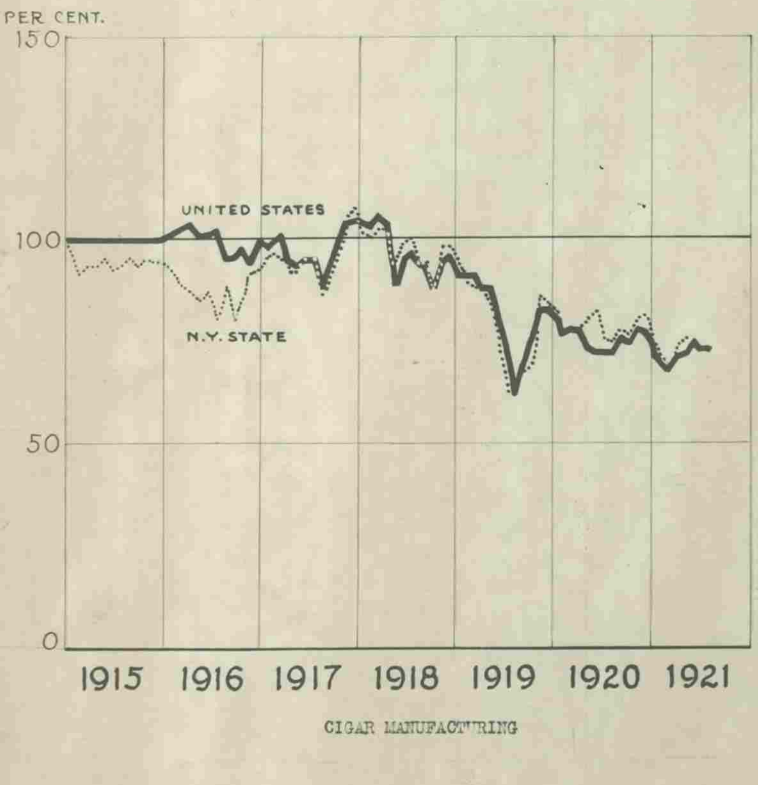
IRON & STEEL



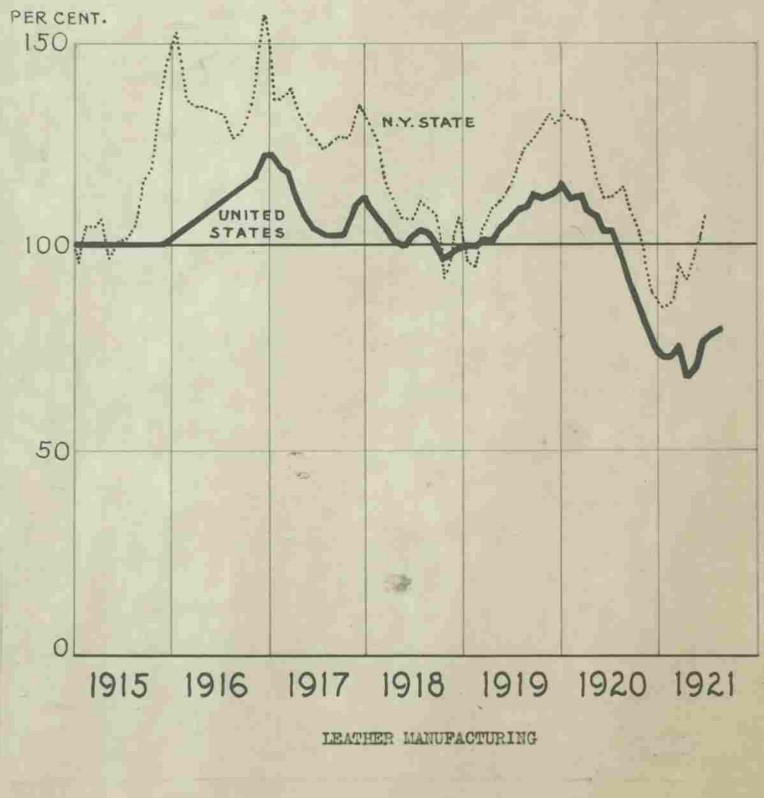
CAR BUILDING & REPAIRING



PAPER MANUFACTURING



CIGAR MANUFACTURING



LEATHER MANUFACTURING

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 26, 1921

TO Governor Strong

SUBJECT: Unemployment

FROM Mr. Snyder

Just as a sidelight on unemployment, this may be of interest:

Stamford, Conn., where I live, is supposed to be one of the worst hit towns in this vicinity, especially on account of the long shut-down of Yale & Towne and the fact that they are now employing 50 per cent. of their peak force. I hear of other industries around about in much the same condition, and the complaint of unemployment is very general.

In spite of this:

> It is very difficult to get a good cook or other domestic help in Stamford now, and the wages demanded are nearly as high as anything last year.

As you know, Stamford is a town of about 30,000 people and is a very solid, prosperous community. The question is: Where do all the women who were formerly employed in the factories go?

It is very evident, I think, that there is one field of labor that is not liquidating, and that is domestic service.

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Sept. 28, 1921

Governor Strong   Unemployment

Mr. Snyder

I think you will be interested in the following:

I went up today to talk to The Knit Goods Association of America, and at lunch and afterwards there was very considerable discussion of the matter of unemployment; and from this it developed that a number of concerns have found it very difficult to man their mills adequately to meet the current demand. A number of them reported that they had been recruiting and advertising for some weeks now, and had been quite unable to get anything like the number of people they wished.

One large factory in Utica said they had spent in the month of August $111 in small advertisements in newspapers in all the surrounding towns, and had gotten comparatively little response. Another concern said that it had kept the addresses of all the people they had been compelled to let go in the slump, and that they had circularized and written to these asking them if they would come back, and that the response was comparatively small. On the women's side of it, apparently a very notable number of them had gotten married, and when they were asked if they did not want to earn some extra money they replied that their husbands had said no--did not want them to work.

Another very large concern, in Grand Rapids, Michigan, reported that not only themselves but several other big concerns in Grand Rapids had been advertising and recruiting for some time, and with no very great success, that people had drifted away or into other lines of work and were not tempted by the wages offered.

You will note how all this tallies with the very interesting report from The Pierce-Arrow Company, attached herewith, that they had found it difficult to get good mechanics and that there was relatively little unemployment observable in and about Buffalo.

It was especially interesting to note, also, the confirmation of the same report that a great number of the workers let go had found work in other lines which were apparently more attractive than the wages in the factories.

Likewise, all of them agreed that domestic labor was still scarce and that the wages demanded were nearly as high as ever. This agrees exactly with our own personal experience in Stamford.

It may be true that there are three and a half million people out of factory employment in the United States, but that there is one-half that number actually out of employment of some sort now I should very much doubt.-- The general feeling expressed at the Knit Goods meeting was that business is fairly good though not at maximum, and that there was a general atmosphere of optimism.

The two charts on wages and cost of living requireda good deal of compilation, but it seems to me that they were well worth the effort. I think they are crackerjacks.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 29, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I should like to draw attention to an extremely interesting fact with regard to this chart. The commodities included in these two indices are things like cotton, copper, wheat, meat, and the rest very largely commodities of international trade wherein the price in New York or London is just the difference of transport, but also plus or minus the difference in exchange.

Now, in the year under view, sterling has varied in dollar value by as much as

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 29, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I should like to draw your attention to the astonishingly complete and careful review of conditions in the United States which is given in the monthly circular of the Bank of Switzerland. Also, you will note on pages 147 and 157 quotations from the Review of this Bank.

If it ever seemed worth while to defend the statistical and information service of this Bank, we could put in as exhibits a few such circulars as these.

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 29, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I have been pursuing a little that very interesting chart which Anderson had, showing the effect of exports on the price of wheat. The attached chart compares the average price of wheat each month with the average of all commodities, Bureau of Labor index.

You will observe that the heavy export demand of 1914-15 did have a very marked effect on the price and ran up to a premium, as you might say, of 60 per cent. over what would have been the normal increase. But this held only for a few months and throughout the rest of the war, with the exception of three months of 1917, the premium was less than 20 per cent., and averaged only about 10 per cent.

This is in spite of the fact that from the end of 1915 the submarines and German raiders practically cut off the Argentine and Australian wheat, which meant that the whole burden of the war's demands in Europe fell upon this country.

Further, you will note that in the present year the tremendous exports, which have broken all records, have not kept wheat from going to nearly 20 per cent. below the average of all prices.

You will remember that wheat actually went to a permium of 200 per cent. and more over the pre-war average price, and averaged through the war around 150 per cent. In other words, apparently only about one-tenth of its rise in price could be ascribed to the unusual war demand, and the other nine-tenths was participation in the general rise of all prices.

Of course you may say, if you like, that the general rise of prices was itself due to the war's demands, but as to this it seems to me the statistical proof is wholly lacking. The facts are that general prices did not begin to rise when we got the war orders nor when we shipped the goods, but when we got the cash.

Apropos of which latter, an interesting little bit from the ablest banker-economist of England:

> "There is no point more important, in issuing paper money, than to be fully impressed with the effects which follow from the principle of limitation of quantity. It will scarcely be believed fifty years hence that bank directors and ministers gravely contended in our times, both in Parliament and before committees of Parliament, that the issues of notes by the Bank of England, unchecked by any power in the holders of such notes to demand in exchange either specie or bullion, had not, nor could have, any effect on the prices of commodities, bullion, or foreign exchanges."

David Ricardo, 1817

MISC.3-[illegible]-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 29, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I should like to draw attention to an extremely interesting fact with regard to this chart. The commodities included in these two indices are things like cotton, copper, wheat, meat, and the rest very largely commodities of international trade wherein the price in New York or London is just the difference of transport, but also plus or minus the difference in exchange.

Now, in the year under view, sterling has varied in dollar value by as much as

Not finished

PRICES OF BASIC COMMODITIES

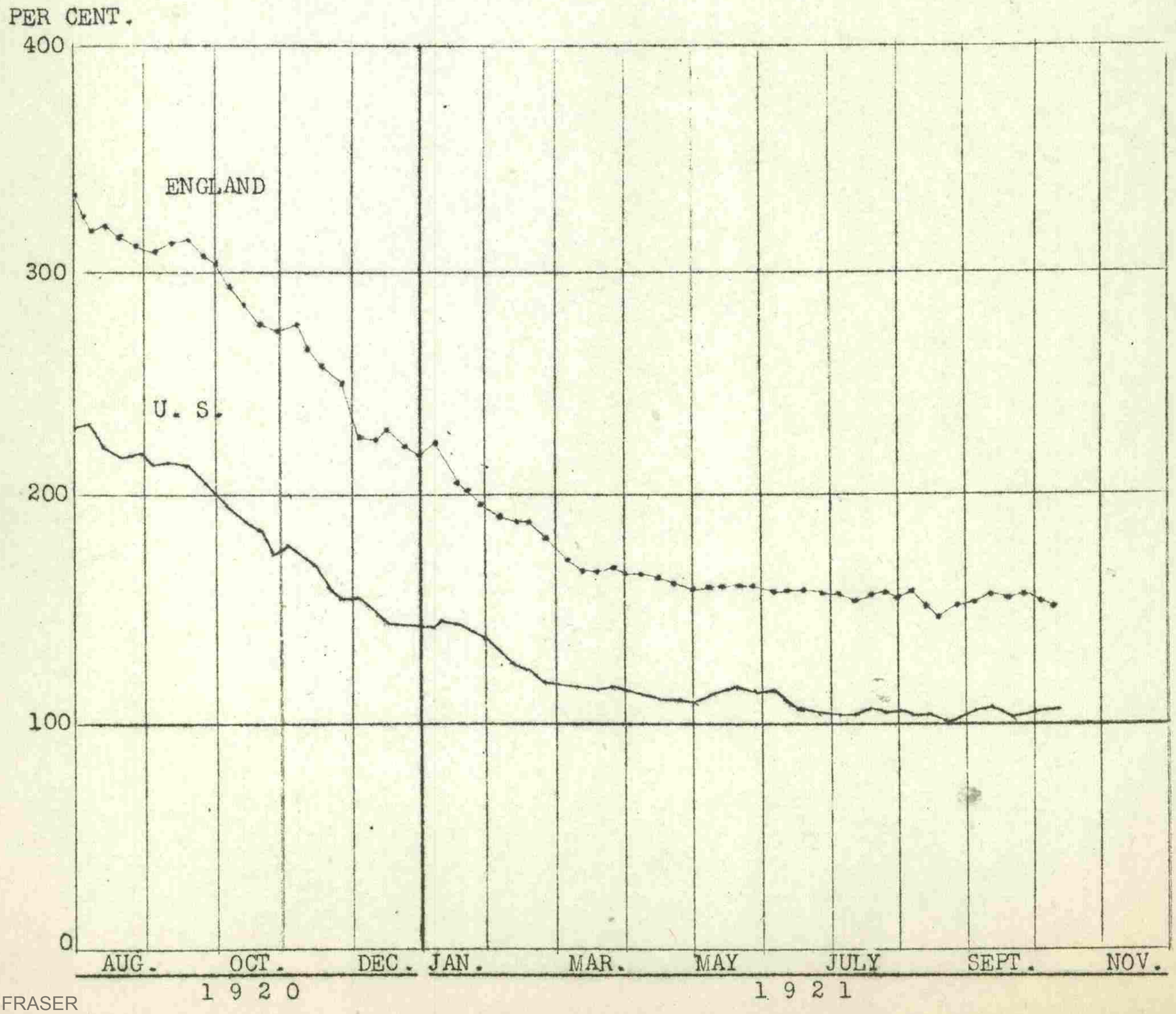
A further advance of 1 per cent. in our index of twelve basic commodities was due to a sharp advance in petroleum and advances in copper and hogs, which more than offset new declines in wheat and corn.

Pennsylvania crude petroleum, which had held for nearly two months at $2.25 per barrel, had advanced to $2.50 in the week previous, and in the past week further advanced to $3.00 per barrel.

Wheat declined from $1.27 1/2 to $1.19 1/2, another new low for the year, and corn lost 1 3/4 cents to 64 1/2 cents, also a new low.

Copper market was active and prices advanced 1/2 cent per pound to 13 cents at which all offerings were reported taken.

PRICE INDICES OF 12 BASIC COMMODITIES IN THE UNITED STATES
AND 20 BASIC COMMODITIES IN ENGLAND (1913 = 100 PER CENT.)



MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 4, 1921

TO Governor Strong

SUBJECT: International Note Issuing Bank

FROM Mr. Snyder

Mr. A. H. Gibson, author of this latest Proposal, is the Northern District Manager of the Anglo-South American Bank at Bradford, England. He made a rather interesting and original address last year at the meeting of the British Association. I attach herewith a brief correspondence I had with him.

This plan is rather along the same lines as the proposals of Dr. Vissering, of the Netherlands Bank in Amsterdam.

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 5, 1921

TO Governor Strong

SUBJECT: Foreign Exchange Situation

FROM Mr. Snyder

Your question is:

> How large a gold fund would be required to maintain at a fixed point the exchanges of those countries which have now a fairly satisfactory gold reserve, say 30 per cent. or more, that is to say, those countries whose exchanges are least depreciated?

I have never seen anywhere any attempt to answer or even consider this question, and although I have discussed the general subject of stabilization with almost all the chief proponents of that idea, including Prof. Cassel, Mr. Keynes, Prof. Bonn and Lord D'Abernon, I do not recall that this particular point was ever raised. Nor in any of the numerous textbooks on the subject is there any attempt to get at the fundamentals back of the question. So I should like to have your judgment on the following:

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As this runs counter to the current gibber on the subject, let us consider the case in detail. A nation does not essentially differ from an individual in business. Supposing, at the end of a month or a year, you find that your total sales and receipts do not equal the payments you have to make; you must either put up the balance in cash or obtain a credit. If the balance is small you will probably not have to resort to a loan. But as soon as it becomes large enough, you will, and the interest paid will be very roughly proportional to the amount involved. That is to say, the heavier the balance is against you the higher rate of interest you will have to pay. The higher the rate of interest the more you will be tempted to force your sales and restrict your purchases, so as to keep this balance down.

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If this be true, then if we extended the present situation of matching paper currencies against gold over a long series of years, we should expect to find that the exchange rate fluctuated pretty evenly about a fixed point, which fixed point represented very nearly the relative value of the two currencies. (All this was pretty thoroughly gone into by Ricardo over a century ago.)

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OFFICE CORRESPONDENCE

DATE October 5, 1921

TO Governor Strong

SUBJECT: Foreign Exchange Situation

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Now, if the foregoing is correct, it follows that, for example, England's foreign trade is not, as is popularly supposed, heavily out of balance, but that, with such credits as she has been able to obtain, it has been for two years very closely in balance, with the result that there have been only very even fluctuations above and below a fixed point, which fixed point represents pretty closely the relative purchasing value of the paper sovereign and gold.

If this be true, then it follows that if the exchange were pegged at a point sufficiently below this median or average value the effect would be, on balance, to draw gold to England and not from it. It is almost impossible to determine what the most adverse point has been in the last two years, of the balance against England which has resulted in a depreciation of approximately 10 per cent. below the average value of its currency. This sum would be theoretically the maximum sum that would be required to keep the exchange at the new parity.

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This is based upon the view that, contrary to popular supposition, the present situation differs in no way from the normal, or ordinary, situation in pre-war days, except that the balancing of the current trade demands with a paper currency matched against gold is much more difficult than under the ordinary gold exchange, and therefore that the swing of the exchange rate above and below the actual parity of the currencies (i.e., the equivalent of the "gold points") is very much greater. Under a gold exchange this fluctuation of the rate is on the order of only about 1 per cent. I made a rough calculation that, with a fairly stable paper currency like England's, the fluctuations might be something like ten times as great as with gold exchange; and this seems to be very roughly somewhere near the fact.

So to put it into the roughest sort of a figure I should think for sterling the maximum gold fund that might be required would probably not greatly exceed 100 million dollars, and pretty certainly not 200 millions. On the same sort of a guess,

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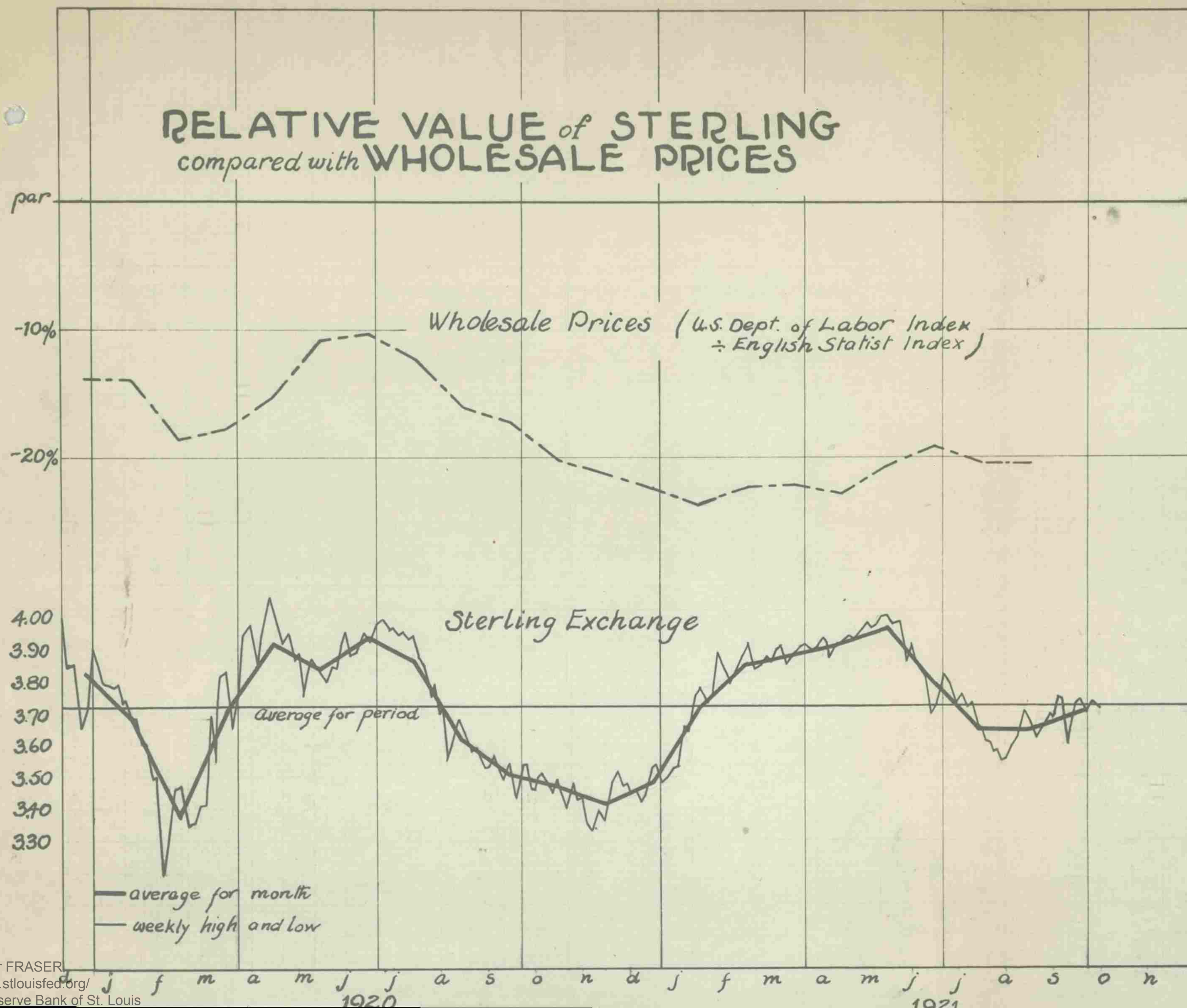
Second, as to payments on our foreign debt. If these payments have to be made then they would have to be allowed for and due calculations made to meet the balances required. I do not apprehend that anything like the full amount would have to be paid in gold, for I am very strongly of the belief that by the end of the year the money market will be very much easier and that from that time on the floating of foreign loans will be quite feasible at favorable rates. But this, of course, is merely an opinion. Likewise, my feeling is that, even by next spring, there will be a quite different attitude on the part of the country towards this question, and that such a change can reasonably be depended on , with the general improvement of the business situation.

I do not know how well grounded this reasoning will appear; but it seems to me the only kind of reasoning which will fit with the known facts. If it is approximately correct, then the sum suggested as the total amount of the gold fund would have a factor of safety of very roughly something like 50 to 100 per cent. Possibly it ought to have to allow for any unforeseen complications. But it also seems to me that its success would depend very largely upon its being given full publicity and the amount of the fund be sufficient to carry in the public mind the weight of the full restoration of the gold exchange standard.


RELATIVE VALUE of STERLING
compared with WHOLESALE PRICES
par
-10%
-20%
Wholesale Prices (U.S. Dept. of Labor Index ÷ English Statist Index)
Sterling Exchange
4.00
3.90
3.80
3.70
3.60
3.50
3.40
3.30
average for period
average for month
weekly high and low
d j f m a m j j a s o n d j f m a m j j a s o n d
1920
1921

NOTES IN CIRCULATION, GOLD RESERVES AND RATIO OF GOLD TO NOTES.

(000,000 omitted)

	End of 1913			End of 1920			Latest available date		
Country	Notes in Circulation	Gold Reserves	Ratio Gold to Notes	Notes in Circulation	Gold Reserves	Ratio Gold to Notes	Notes in Circulation	Gold Reserves	Ratio Gold to Notes
Belgium	£ 40	£ 12 (1)	31.2	6,227fr.	317fr.	5.1	6,216fr.	322fr.	5.2
England	£ 30	£ 34	114.4	(2) £ 481	(2) £155	32.2	(2) £ 426	(2) £ 155	36.4
France	£ 229	£ 141	61.6	38,590fr.	5,501fr.	14.3	37,128fr.	5,523fr.	14.9
Germany	£ 130	£ 72	55.8	(3) 81,387M.	1,092M.	1.34	(3) 88,419M.	1,024M.	1.15
Holland	£ 26	£ 13	48.4	1,116fl.	636fl.	57.0	993fl.	605fl.	60.9
(4) Italy	£ 71	£ 49	68.8	15,437 L.	1,339 L.	8.7	13,870 L.	1,345 L.	9.7
Japan	426 Y.	(1) 224 Y.	52.6	1,217 Y.	1,269 Y.	104.3	1,049 Y.	1,275 Y.	121.6
Norway	£ 5.9	£ 2.6	44.4	478 K.	147 K.	37.1	419 K.	147 K.	35.1
Spain	£ 77	£ 19	24.9	4,326 p.	2,457 p.	56.8	4,183 p.	2,496 p.	59.7
Sweden	£ 12.2	£ 5.7	46.5	760 K.	282 K.	37.1	607 K.	285 K.	47.0
Switzerland	£ 12.6	£ 6.8	54.2	1,024 fr.	543 fr.	53.0	927 fr.	545 fr.	58.8

(1) Includes silver each year.
(2) Includes currency notes and gold reserve against them.
(3) Includes Loan Bank notes, Gov't notes and notes of all banks of issue.
(4) Bank of Italy only; reserves include total cash.

RATIO OF GOLD TO NOTES IN CIRCULATION IN SPECIFIED COUNTRIES

(arranged in order of present ratio)

Country	End of 1913	End of 1920	Latest available date
Japan	52.6	104.3	121.6
Holland	48.4	57.0	60.9
Spain	24.9	56.8	59.7
Switzerland	54.2	53.0	58.8
Sweden	46.5	37.1	47.0
England	114.4	32.2	36.4
Norway	44.4	37.1	35.1
France	61.6	14.3	14.9
Italy, Bank of	68.8	8.7	9.7
Belgium	31.2	5.1	5.2
Germany	55.8	1.34	1.15

October 5, 1921

Governor Strong | Foreign Exchange Situation

Mr. Snyder

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contrary to [illegible] views in memo of Sept/21.

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Governor Strong — Foreign Exchange Situation

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October 5, 1921

Governor Strong   Foreign Exchange Situation

Mr. Snyder   2

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October 5, 1921

Governor Strong — Foreign Exchange Situation

Mr. Snyder — 3

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MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 7, 1921

TO Governor Strong

SUBJECT: Stabilizing Exchange

FROM Mr. Snyder

As to the exact effect of pegging sterling at a given figure, would not the mechanism be as follows:

The bank in London and the bank in New York, for example, agree to buy or sell exchange without limit at a fixed figure. They do this and settle their balances in the usual way of shipping or receiving gold. There would be none of the usual small interplay within the so-called gold points; the exchange would be absolutely fixed.

At certain periods the two banks would settle, and if it was so desired the actual gold would be sent, or that gold would be earmarked for deposit in the one bank to the credit of the other. So long as it physically existed, there would be no particular reason for having it in one country more than in another. It would be counted as a part of the gold exchange fund of the country to which it belonged.

Now as to the effect: It is true that this gold would be no more taken into the vaults of the English banks than at the present time. At the present time the Bank of England has impounded upwards of 600 million dollars of gold. For all practical purposes no one can touch it. Supposing that it set aside 200 millions or so of this for a gold exchange fund, such as exists for Indian exchange and such as the Philippine banks had for exchanges in this country; if the balance of exchanges was against England, this fund would be drawn down correspondingly. If, on the other hand, the balance was in favor of England, gold would be shipped to it or credited to the fund, and the fund would thereby be increased to a point where it would sustain a prolonged drain.

By virtue of the fact that this gold would not go into circulation nor into the bank vaults to support credit expansion, an inflow of gold would have no effect, per se upon the prices in England, nor would the outflow.

On the other hand, supposing that England sent to this country a sufficient quantity of gold; theoretically, at least, that gold might flow eventually into the bank reserves of this country and be there used to support a corresponding expansion of credit. This on the theory that in the long run business will always expand the bank loans to the limit. The effect of this would be to raise prices accordingly, and therefore, eventually, to decrease exports to Great Britain, increase imports from that country, and thereby restore the balance which had been lost.

Now as to probabilities: If the average price of sterling for the last 21 months represents very closely the average value of the paper pound in gold, and this relative value has not changed in this period, then there ought to be no more difficulty in settling the balances under this gold exchange standard plan than under the ordinary conditions of fixed standards. In other words, this average represents the actual gold parity of the two currencies.

MISC.3-1-90M-1-20

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SUBJECT: Stabilizing Exchange

FROM Mr. Snyder

But if, as our investigations show, the paper pound is really depreciated, relative to its internal purchasing power, then the effect of adopting this average price of exchange would be to make English goods relatively cheap, to the extent of this depreciation. And this, I think, is exactly the case. The establishment of a fixed exchange rate in gold, then, ought to have the effect of increasing British exports and decreasing their imports; in other words, to increase the English gold exchange fund. But this would eventually stimulate trade in Great Britain, lead to a rise of wages and production costs, and thus equalize prices in the two countries. All exactly the same as under the ordinary system of exchange.

In all this there seems to me very little that is theoretical or that is not referable to the actual facts. England has had the gold exchange standard for India for a number of years, and until the outbreak of the war it was working very well, and stabilized prices in India to a very high degree. The same would have been true in the operation of the gold standard exchange with the Philippines, if the management of the Philippine bank had been honest. That fund simply broke down because of dishonesty. The very existence of the gold standard exchange presupposes that the balances will be settled promptly in gold, and that no one will abuse the opportunities which such a system creates.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 7, 1921

TO Governor Strong

SUBJECT: Stabilizing Exchange

FROM Mr. Snyder

As to the exact effect of pegging sterling at a given figure, would not the mechanism be as follows:

The bank in London and the bank in New York, for example, agree to buy or sell exchange without limit at a fixed figure. They do this and settle their balances in the usual way of shipping or receiving gold. There would be none of the usual small interplay within the so-called gold points; the exchange would be absolutely fixed.

At certain periods the two banks would settle, and if it was so desired the actual gold would be sent, or that gold would be earmarked for deposit in the one bank to the credit of the other. So long as it physically existed, there would be no particular reason for having it in one country more than in another. It would be counted as a part of the gold exchange fund of the country to which it belonged.

Now as to the effect: It is true that this gold would be no more taken into the vaults of the English banks than at the present time. At the present time the Bank of England has impounded upwards of 600 million dollars of gold. For all practical purposes no one can touch it. Supposing that it set aside 200 millions or so of this for a gold exchange fund, such as exists for Indian exchange and such as the Philippine banks had for exchanges in this country; if the balance of exchanges was against England, this fund would be drawn down correspondingly. If, on the other hand, the balance was in favor of England, gold would be shipped to it or credited to the fund, and the fund would thereby be increased to a point where it would sustain a prolonged drain.

By virtue of the fact that this gold would not go into circulation nor into the bank vaults to support credit expansion, an inflow of gold would have no effect per se, upon the prices in England, nor would the outflow.

On the other hand, supposing that England sent to this country a sufficient quantity of gold; theoretically, at least, that gold might flow eventually into the bank reserves of this country and be there used to support a corresponding expansion of credit. This on the theory that in the long run business will always expand the bank loans to the limit. The effect of this would be to raise prices accordingly, and therefore, eventually, to decrease exports to Great Britain, increase imports from that country, and thereby restore the balance which had been lost.

Now as to probabilities: If the average price of sterling for the last 21 months represents very closely the average value of the paper pound in gold, and this relative value has not changed in this period, then there ought to be no more difficulty in settling the balances under this gold exchange standard plan than under the ordinary conditions of fixed standards. In other words, this average represents the actual gold parity of the two currencies.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 7, 1921

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Java ?

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE ________ 192__

TO Gov. Strong.

SUBJECT: Sat aft. 4½ p.

FROM C. S.

We had worked up an elaborate set of tables & Mr. Roberts was to write up the report for you. He took the material home yest. and at 10 this morning telephones he is sick abed. The materials did not arrive til after noon, & I've had to give you the attached digest myself.

Is it not a surprising result?

C. S.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 8, 1921.

TO Governor Strong

SUBJECT: Our Recent Foreign Trade

FROM Mr. Snyder

The problem of estimating the relative value of our foreign trade, and especially exports, présents curious difficulties. So long as the variations in prices are not great, and likewise the character of the articles of foreign trade does not vary widely, this relative value is represented with a fair degree of approximation by the actual figures as reported by the Department of Commerce.

As reported by the Department of Commerce our exports for the first eight months of the present calendar year compared with the two previous years as follows:

	1919	1920	1921
Eight Months -	$5,151,347,542	$5,369,349,400	$3,143,553,402

Judging from the reported values alone one would infer that the actual export trade in relative value or quantities was about the same for the first eight months of 1919 and 1920 and that this trade had suffered a fall of about 40 per cent. in the present year. As a matter of fact there was so wide a variation in prices that these figures have little representative value. Index figures as to export prices have been prepared, but in general they do not differ widely from the average of all prices as tabulated by the Bureau of Labor, and for the present purpose it is quite possible that the average of all prices is the more reliable. For the first eight months of these three years the average of the Bureau of Labor index has compared as follows:

	1919	1920	1921
Eight Months -	208	258	157

It will be seen from this that the average of wholesale prices in 1920 was about 25 per cent. above 1919, and if this was true for the average value of all the exports, then the actual volume or relative value of the exports for 1920 was about 20 per cent. below 1919.

In the same way the average of prices for the present year has been about 40 per cent. below the corresponding period of a year ago, which is just about the same decline as in the reported values of our exports. This would suggest that the actual volume and relative value of the exports this year were approximately the same as last, that is, that there has been no real decline.

Utilizing this method, the relative values of our exports for the three years would then compare as follows:

	1919	1920	1921
Eight Months	$2,476,622,380	$2,081,143,170	$2,002,263,310

That this method does possess a fair degree of reliability is evidenced by a comparison of the results so obtained with estimates made by an entirely different method. For the years 1914 and 1918 the United States Shipping Board made an elaborate calculation as to the actual quantities or tonnage and the relative

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 8, 1921.

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The results of the Harvard calculation and of our method of allowing for price changes by dividing by the Bureau of Labor index are set forth in the accompanying chart. This shows also the actual values as reported.

It will be seen from this graph that the results for a series of years were strikingly parallel. This gives some confidence that the same method may be followed at the present time. But it is to be noted that the fall in prices has been much more rapid than the probable fall in the price of the articles actually exported. There is always some lag between the contracts and the actual exports. If such an allowance be made as to the last eight months the result would seem to suggest that the actual exports this year have not been very different from those of the same period last year.

This result is borne out by a comparison of 161 of the principal items of export for which the actual quantities are given in the Commerce reports. If the percentages of these quantities for the present year, as compared with last, are taken and these percentages averaged, the result would show an average decline of about 12 per cent. But if these several percentages are weighted according to the relative values of the different items, the average would show a very notable increase, instead of a decline - something like 37 per cent. It is highly probable, however, that this result is altogether too high, because certain heavy exports greatly overweight the remainder by this method and the likelihood is that the real relative volume of this year's and last year's exports lies somewhere in between. That is to say, somewhere around parity or a little above.

This result compares favorably with the computations of the Federal Reserve Board, which finds an increase in the relative volume of 29 important articles for the present year of about 4 per cent. These 29 articles represent about one-half of the total exports in value. The 161 articles noted above, for which we took averages, represents very closely three-quarters.

In the same way an estimate as to a number of important divisions for which quantities were available, including breadstuffs, cotton, cotton cloths, and a selected number of steel products, indicated an increase for the present year in relative volume of about 5 per cent. over last year. The total value of these products was about one-quarter of the total exports.

In the same way Mr. Austin, formerly the head of the Statistical Bureau of the United States, made an estimate for the first seven months, which seemed to show a gain in relative volume of about 2 per cent. for this year.

The general similarity of these results, reached by quite different methods, strongly suggests that they approximate the fact. In the face of all the innumer-

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 8, 1921.

TO

SUBJECT:

FROM

able stuff that has been written about the "colossal decline of our export trade," it seems somewhat hardy to suggest that there has been no decline whatever relatively, but this seems at least somewhere near the unescapable conclusion from any kind of calculation that has been made. It is well known that at least certain of our chief products have gone abroad this year in very heavy volume and some of them, like wheat, in record volume, so that, while out of the 161 articles for which quantities are reported, nearly three-fourths show a decline, the importance of the remainder was so great as largely to counterbalance this result.

Finally, this conclusion is strongly enforced by the actual figures of tonnage entered and cleared, in foreign trade. Contrary to almost universal belief, for the first seven months these compared as follows:

(7 mos.)	1920			1921	
American	Foreign	Total	American	Foreign	Total
16,105,000	16,185,000	32,290,000	17,421,000	17,807,000	35,229,000

Increase over 1920 .... 9.2 per cent.

We have next to inquire as to what is the relative importance of our exports to the total national product; and here again we obtain a result greatly at variance with a great deal of popular writing and speaking.

Studies made by this department last year show that this relative importance of our foreign trade had been steadily declining throughout the period under view (about 40 years) down to about 1909; and that from that year it made an about-face, and this trade has been steadily rising in relative importance since.

Mr. Gilbert King made a very careful study for us and came to the conclusion that for 1919 our exports represented in value something around 9 per cent. of the total physical product of the country, of all kinds. This is probably an outside figure. The reality may be somewhat below this, because there are huge numbers of things produced in the United States, of which practically none is exported. A notable example is the total printing bill for the country, which runs far over a billion dollars.

Next, the studies of national production made by this department indicate that the total for 1920 was only about 5 per cent. above that of 1919, so that the proportion of the whole which went abroad remained about the same. But for the present year, there has been, in most fields, a very notable decline in this national product, not less than 20 to 25 per cent. in manufacturing, and including farm products and transportation, not less than 15 per cent.; probably much more.

We come then to the most unexpected conclusion that

the proportion of our national product which has been exported this year has probably been the largest in the last quarter of a century at least.

MISC. 3.1 STAT. 1M 9-21

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

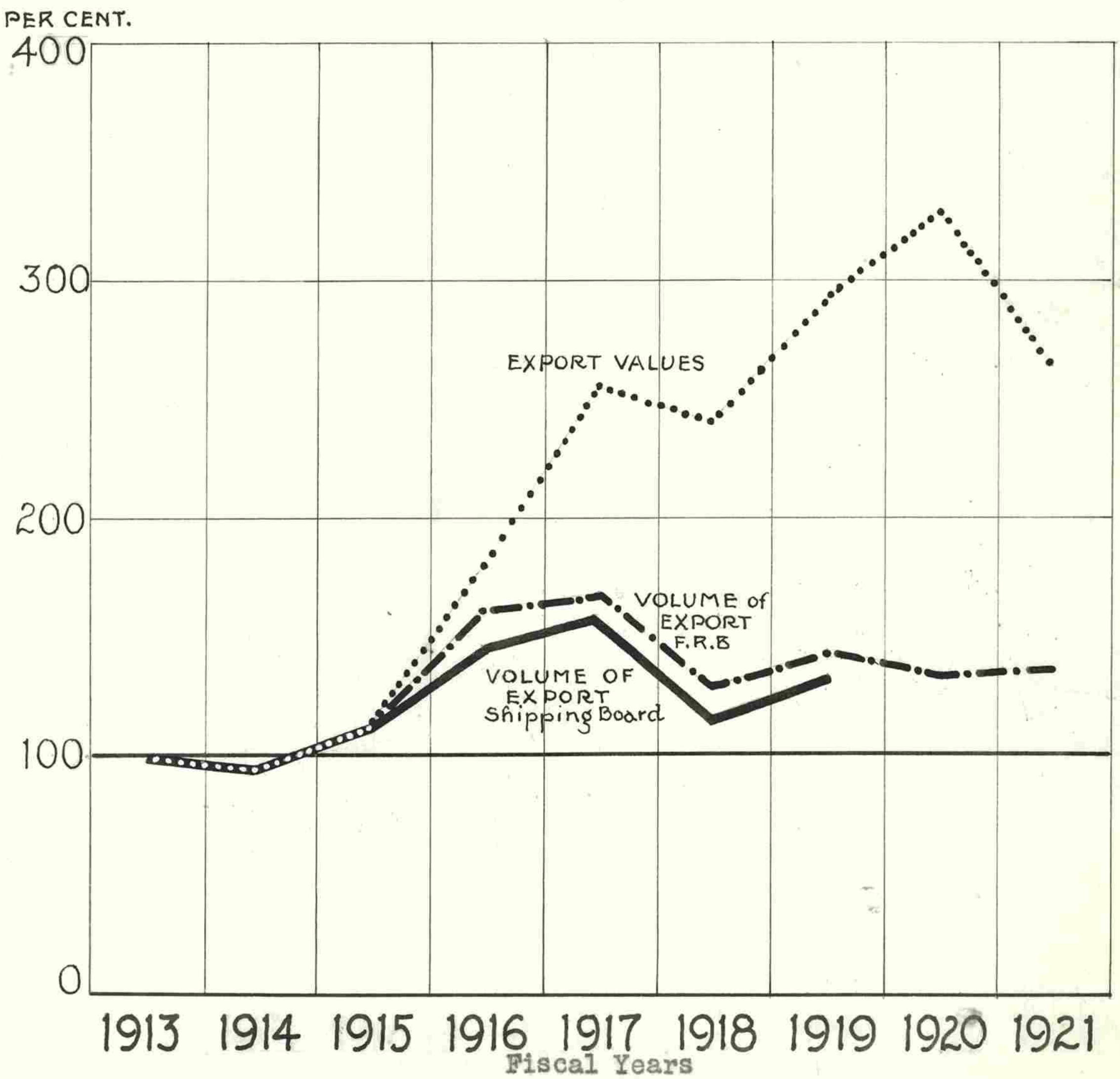
DATE Oct. 8, 1921

TO

SUBJECT:

FROM

This conclusion should suggest a large measure of caution in contending that the supposed decline in our foreign trade has been largely or in any way responsible for the present depression and unemployment. Indeed this caution is suggested by the most elementary consideration. Our largest single item of export now is wheat and flour. For the present year these exports have been in record volume, and double those of last year; and the total wheat crop this year has been below the average. In the face of this, the price of wheat has had a headlong fall and is now, and has been for the most of the present year, about half the average price of the same period last year. And the same is true of corn, another important item of export, though the corn exports this year have been eight times the exports of last year.



Per cent of United States export values and two estimates of export volume above 1913. Shipping Board volume is based on tonnage figures. That of Federal Reserve Bank of New York is the reported value divided by wholesale price index

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 8, 1921.

TO Governor Strong

SUBJECT: Our Recent Foreign Trade

FROM Mr. Snyder

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OF NEW YORK

OFFICE CORRESPONDENCE

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MISC.3.1-90M-1-20

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MISC. 3.1 STAT. 1M 9-21

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 8, 1921

TO

SUBJECT:

FROM

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MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 2, 1921 192

TO Governor Strong

SUBJECT: Vanderlip Plan

FROM Mr. Carl Snyder

When the Vanderlip plan was cabled, I gave instructions that everything printed about it should be sent to you. This last in the Times is the latest I know of.

We are sending up town for a Chicago paper with a full account of the McKenna speech.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 3, 1921

TO Governor Strong

SUBJECT: Silesian Question

FROM Mr. Carl Snyder

I attach herewith an almost sensational statement of the handling of the Silesian question by the League of Nations, and the disastrous fall of the mark which attended it, which appears in the Economist for October 22. This is from the pen of Mr. Robert Crozier Long, to whom I was given a letter by Hartley Withers, with the recommendation that I surely see him. He is a very keen, cool, practical sort of person, extremely well informed, and I should say of very good judgment, thoroughly English and not German in his point of view. If he can write in this fashion on the question, it must have been pretty bad.

If this is a sample of the League of Nations' work, does it not make us pause?

MISC 3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 7, 1921

TO Governor Strong

SUBJECT: Confidential Memorandum on Reparation Payments (J. A. L.)

FROM Mr. Carl Snyder

(1) The calculations and estimates made in this report are based upon the position of the mark at the beginning of October, a part even earlier still, when the paper mark was around 14 or 15 to the gold mark.

With the mark at .35 today the depreciation from October 1 is more than 60 per cent. and brings the mark to less than 70 to the dollar.

(2) This knocks any calculations as to the probable deficits under the proposed budget galley-west. It means, also, that the whole Wirth scheme of taxation is, as Mr. Long put it in his Economist article, "as dead as the Erzberger plan," unless, of course, there should be a violent recovery in the value of the mark, of which at the present time there seems very slight prospect.

(3) We have tried to check up some of Mr. L.'s calculations, especially as regards the balance of imports and exports. They do not seem to me of very much value, for a simple reason. Germany has been kept alive in very considerable part in the last year by an enormous tide of tourist travel and tourist purchases, and probably, also, a very large borderland trade all around its periphery. As this is mostly small stuff that can be carried in hand bags or trunks, it has almost entirely eluded inclusion as exports.

(4) Then there is the "hole in the West," about which Germany has complained bitterly, both as regards the inpour of a huge quantity of articles of every description, to be sold to the "schiebers," or profiteers; and, on the other hand, a very considerable volume of exports. I gained the impression in Germany that no kind of foreign trade figures were really of very much value now, and an attempt to calculate the supposed "adverse balance" is, I think, hopeless.

(5) It is true that the outside holdings of marks have considerably increased in the last year. And possibly, also, German merchants have been able to obtain considerable credits abroad. It is further a characteristic, I think, of a country under inflation, with rising prices, that its imports almost always exceed its exports.

(6) Germany's exports before the war were running around 2½ billions of our money. A rough estimate has been made that they are about one-third this in relative quantity now. This, at prices in gold roughly 50 per cent. higher than in 1913, would mean something like a billion and a quarter.
7. Mr. L.'s estimate amounts to about a billion, and is possibly rather low. The Government's revised estimates as of last week are shown in the attached Associated Press cable. You will note that they are considerably higher than those in Mr. L.'s memorandum, and even these are out of date in a week.

(8) All of this shows very vividly what Prof. Bonn said in a conversation last July in Berlin, that the primary essential, the sine qua non

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 7, 1921

TO Governor Strong

SUBJECT: Confidential Memorandum on Reparation Payments (J. A. L.)

FROM Mr. Carl Snyder

of any solution, was the stabilization of the mark; that until this was accomplished it was impossible to estimate budgets, tax receipts, export duties, foreign trade balances, or anything that goes into the fixing of payments. All this seems A. B. C. and as plain as a pikestaff. But it does not seem to have gotten through the heads of either the Berlin Government, or of the Reparations Commission, or of any of the people concerned, with the exception of a few people like Keynes, Bonn, Lord D'Abernon, and Professor Cassel.

Therefore, it looks as though there was nothing to prevent the realization of Keynes' prediction of a default and a total collapse of German finance next spring. Only it seems as though it might be coming before that.

I had a very strong feeling last summer when I was in Berlin that some definite steps toward stabilization would be taken; but the great difficulty appears to be that the Wirth Government, in undertaking to make the reparations payments, had bitten off more than it could chew. Their idea was, I think, that if they made one heroic effort to meet their promises they would then be able to make terms with the Allies. No one could very clearly see the subsequent catastrophe. But what has happened makes doubly certain that Mr. L.'s conclusions were eminently correct.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 7, 1921

TO Governor Strong

SUBJECT: German Reparations Payments in August

FROM Mr. Carl Snyder

If the selling of marks has been wholly from the outside, then practically nothing that the German Government could do directly would have saved the situation or will help it now.

I should add that my informant is a German of 26 years' banking experience in London, and now two years here in New York. I was very much struck with the fact that when I talked with him about the general situation six weeks or so ago he seemed to be in a fairly optimistic mood, while now he regards the situation as very dark and feels that unless something can be done a violent uprising or even a revolution might result. He feels that the manufacturers cannot go on under the present conditions, and that if they should shut their factories it would precipitate a worker revolution. Yet he is not in the least of the alarmist type.

INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

A. M.
P. M.
DATE

TO Mr. Strong.

DEPARTMENT
DIVISION
SECTION

REMARKS This is from Mr. Merzbach of Hallgarten & Co

FROM C. S.

Very interesting indeed. B. S.

DEPARTMENT
DIVISION
SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 7, 1921

TO Governor Strong

SUBJECT: German Reparations Payments in August

FROM Mr. Carl Snyder

I have just been able to obtain from one of the participants a confidential account of how the money for the German reparations payments, due last August 30, was obtained.

The amount to be paid was one thousand million gold marks, or approximately $243,000,000. Of this the Reichsbank had been able to accumulate in exchange, up to the end of July, only to the amount of about $60,000,000, leaving something like $185,000,000 to be raised. This was done through loans in various centres. Something like $20,000,000 was obtained here, the five participating firms being the Equitable Trust, Speyer, Boissevain, Hallgarten, and Goldman, Sachs. Part of the security was the Reichsbank's silver.

Another loan for about £5,000,000 was obtained in London from four or five participating parties; the same way with a loan for about 40,000,000 Swiss francs in Switzerland, or about $8,000,000; another loan made by Mendelssohn & Son through Dr. Mannheim, in Holland. This with what additional exchange the Reichsbank was able to accumulate up to the end of August, made up to about $65,000,000, requiring the balance of about $125,000,000 of the Reichsbank's gold. Some of this gold, by the way, is still being received.

These loans were of short date, running from August 15 to the first of October. On the first of October the Reichsbank had been able to accumulate only a very small amount of exchange and had to ask for an extension of most of the loans for another six weeks. In these six weeks they have been able to secure enough so that the American loans, at least, will be paid off on the 8th. It is of interest to note that even the large Paris banks were sounded, and that they said they would be glad to participate except for the political difficulty that lay in the fact that practically all of these payments was to go to Belgium and England, and almost none to France, but that on the next payments they would be in a receptive mood.

It was also stated definitely that the Reichsbank, which means the German Government, had not been selling marks below .80, which is a point of extreme interest.*

The security for these loans, outside of the Reichsbank's silver, was Reichsbank notes, kept good to within 10 per cent. of exchange value. This means that the increase in the Reichsbank's circulation has not gone into the open market, but has simply been used to increase the security required on these loans. Apparently, from my informant, the collapse of the mark has not been due to foreign selling by the German Government. If this be true, it seems to me that it renders the situation far more difficult than it has otherwise seemed.

*Mr. Kenzel's information however is that this selling still keeps up.

OMS-2 35M-4-20

FEDERAL RESERVE BANK OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE MESSENGER SECTION

TIME ________ A. M. P. M. DATE ________

TO Mr Snyder.

DEPARTMENT DIVISION SECTION

I read this with much

REMARKS interest. It strikes me as a bit rambling - and offers no possible way of accomplishing the impossible.

OCT 12 PM 21

INCOMING MAIL DIV. FEDERAL RESERVE BANK OF N.Y.

FROM B.S.

3740

DEPARTMENT DIVISION SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.

TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 9, 1921

TO Gov. Strong.

SUBJECT:

FROM:

Several interesting suggestions in Cassel's new paper, which he has just sent me. The calculations on p. 12 are given at length in his new book, and are quite convincing.

C. S.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 9, 1921

TO Governor Strong

SUBJECT: Re. Prof. Cassel's memorandum on the world's monetary problems.

FROM Mr. Carl Snyder

Interested in your impression that Cassel's paper was "a bit rambling," and offered "no possible way of accomplishing the impossible," I read it over again carefully last night; and I confess I did not get this impression, then or before.

So far from that, I am very strongly of the feeling that, unless the general principles laid down in his paper are specifically recognized and acted upon, things will go on in the same helter-skelter way for at least the next five years as they have been going since the Armistice. For example:

(1) Is it not clear that, as he says, the effect of abandoning the gold standard by the big commercial countries of Europe, and the dumping of a large quantity of gold into the United States had as an inevitable effect a great rise of prices here and a corresponding decline in the value of gold? And was not one effect of this to compel a corresponding amount of paper issue in countries like England and France, to meet and handle the rise in international prices compelled by the rise of a great number of heavy exports from the United States? What is % of BK-to % of price deflation?

1st inflow of gold was before banks borrowed - simply pd debts
2d —

(2) We have now had a very violent and unprecedented deflation, with the result, as he says, to carry the prices of commodities, and especially the large wholesale commodities, to a point below the cost of production. This must imply one of two things, does it not? Either a radical decrease in wages or else a marked rebound in prices? apparently wages have decreased radically

(3) Prof. Cassel feels that the effect of heavy gold imports into this country will be another rise in prices with another drop in the value of gold. But he does not see, as I think is almost certain, that such a rise will bring a corresponding rise in England and other countries. And this rise will be supported by the heavy volume of currency and bank loans still outstanding in those countries; for in these countries there has been little actual deflation, i.e., reduction of currency and bank loans. How much?

(4) In other words, I cannot get rid of the idea that the whole wide world is in for another very heavy rise in prices--if you please, another inflationist boom which will be fought by the usual methods at too late a date, and that these methods will therefore bring another collapse. You know, for example, that to expand their bank loans in England the English banks have merely to take exchequer bills and convert them into Bank of England notes, so as to produce the required amount of "cash." ?

(5) As to the rest of Prof. Cassel's suggestions as regards foreign exchanges, the impossibility of Germany's meeting the payments, etc., I imagine we are fairly in accord.

(6) Now, his proposal is that a committee of experts shall be appointed to study the questions involved and make recommendations to their several governments.

MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 9, 1921

TO Governor Strong

SUBJECT: Re. Prof. Cassel's memorandum on the world's monetary problems.

FROM Mr. Carl Snyder

Does not this seem the only possible way out? Politicians are a blundering, stupid lot, and bankers, especially the Old World bankers, are apt to be pretty set in their ideas. Is not the only possible way for men of vision and vigor and understanding, like yourself and Governor Norman, and Lord d'Abernon, and Sir Charles Addis, to match up their minds with practical economists of real understanding like Cassel and Keynes and Bonn and Gide, with the addition of a few keen minds like Hoover and Paul Warburg and one or two others over here?

The Cunliffe Committee represented a fine body of the Old School, whose whole life training had been under the influence of what you might call the standard English policy. In their way they could no more get out from under its influence than the Bullion Committee of a hundred years ago. I can't help the feeling that the Bullion Committee Report gave England ten years of needless hardships. Are we going to repeat the same operation now, and pull the United States and the whole rest of the world along with it? I believe it would be a mistake.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 10, 1921

TO Governor Strong

SUBJECT: Financial Conference

FROM Mr. Carl Snyder

I do not find that any of the men mentioned yesterday were members of the Brussels Conference except Mr. Vissering. The delegates from this country were:

(page 40.)

Mr. Boyden
Mr. Keith McLeod
Colonel R. H. Hess

From England:

Lord Chalmers
Lord Cullen
Mr. Henry Bell

From France:

M. de Fleuriau
M. Avenol
M. P. Cheysson

One would hardly call these "experts" or authorities.

Neither Cassel nor Gide were members but merely sent memoranda.

Very roughly, what I had in mind was a conference of men of real understanding and influence in their several countries, to be made up of, say, the heads of the six principal central banks, including yourself; six eminent private bankers, six of the most prominent financial economists, and six men as near to statesmen, with a knowledge of the financial field, as could be found, as for example:

Heads of	Type of Private Banker	Economists Like	Financiers of Political Standing Like
Bank of England	Sir Charles Addis	Keynes	Lord d'Abernon
Bank of France	Max Warburg, or	Gide of France	Ex-Secretary Houston, ?
Reichsbank	Paul Warburg	Bonn of Germany	etc.
Bank of Italy		Cassel of Sweden	Hoover ?
Bank of Japan		Schumpeter of Vienna	
Federal Reserve Bank of New York		Prof. Anton Van Gijn	

Possibly the list might include the heads of all the principal central banks and representatives be asked from several other countries. But in general the larger a conference is the more unwieldy it becomes.

Of course it was very easy at the time for the different governments, as Hartley Withers says, to acquiesce unctuously in the recommendations of the Brussels Conference and go their way. But if a new conference were called, especially to meet in this country, whence they are anxious to secure

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 10, 1921

TO Governor Strong

SUBJECT: Financial Conference

FROM Mr. Carl Snyder

large loans, do you not think, if the list was made up of men of high position and real influence and understanding, it would be different?

Even in twelve or fourteen months the temper of the people, and therefore of governments, has considerably changed; and may change much further in the next few months.

Cf. for example, Mr. Hughes down right proposals, where a short 5 or 6 weeks ago they were all at sea. They had heard from the country!

Please also glance at the "debates".

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 16, 1921

TO Governor Strong

SUBJECT: Article by Prof. Bonn

FROM Mr. Carl Snyder

You may be interested in reading this brief paper by Prof. Bonn, which he has just sent me. You will recall that he was an exchange professor at Columbia, and has been sort of unofficial economic adviser to the new German Government. He was being urged strongly, when I was there, as Ambassador to this country. He has an extremely keen mind, I think is very sound; he has few illusions, and his idea is at least very original.

November 16, 1921

Governor Strong

Mr. Carl Snyder

So far as I can see, the matter is about this wise:

The only reason that the Federal reserve notes come back to the Federal reserve banks is that they are not needed in the course of business and are paid into the banks and by those banks paid in to the Federal Reserve in reduction of rediscounts. It is very difficult to estimate what has been the reduction in the average of all prices, but it is evidently far less than the lowering in wholesale commodity prices. Perhaps the best clue would be to take the average of retail food prices, or, better still, the average of the estimated cost of living. From the average of last year to the average of the present year, retail food has declined about 25 per cent. The estimated cost of living, as computed by the National Industrial Conference Board, has declined about 15 per cent.

The estimated amount of currency in circulation in the United States is between four and five billions. It cannot be accurately estimated because of the inability to estimate the losses and hoarding. If we put it at around four and a half billions, then the decline of a billion of Federal reserve notes represents a decrease of about 20 per cent. in the total. Considering that these are very rough estimates, I think they may be said to agree fairly well, and adequately count for the decrease in notes.

MISC.3-1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 17, 1921

TO Governor Strong

SUBJECT: The Value of the Paper Pound

FROM Mr. Carl Snyder

Does not most of the difference of view regarding the practicability of stabilizing exchange now turn around one thing? That is, a lurking hope or belief that somehow or other the paper pound, now worth, say, 16 shillings, will work back to parity in some other way than the one way that the thing can ever happen.

The paper pound is now worth about 16 shillings, not merely in gold but in goods. If you could tomorrow put the pound to parity it would drain England of every dollar of gold available and ruin its trade in the bargain. Why?

Simply because it would increase the value of British goods to the foreigner by 25 per cent. and decrease the value of foreign goods ~~trade~~ to the Britisher by a corresponding amount. The result would be a heavy increase of imports, a heavy fall of exports, and a corresponding outflow of gold.

This is the simple fact that all the talk about balanced budgets and the like simply ignores.

The value of the paper pound is not a theory. It is a very present fact. It is the fluctuations alone which are influenced by the pressure of bills, not the intrinsic worth.

In the last two years this intrinsic value has been, apparently, very close to about $3.72 in our money. In the last few months the general level of English prices has been falling, while ours has been stationary. As a result, the value of the paper pound, measured in gold, has been rising a little. This, with light bill pressure, makes possible a price of $4.00. Nothing else.

If this is the fact, and so I believe it, if a syndicate would agree to sell paper pounds freely at $3.70, I can see no reasonable doubt that gold would flow to England.

Suppose, for example, that the syndicate would agree to sell pounds for $3.00. That would make British goods 25 per cent. cheaper and all exports 25 per cent. dearer to them. Hardly anyone would question that, at this price, gold would come to England.

I believe it would be equally true at $3.70.

Now. This gold would be paid to the seller of exchange, e.g., the Bank of England. It would not go into circulation. It would not be exchangeable for paper pounds at 20 shillings to the sovereign. It would not

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 17, 1921

TO Governor Strong

SUBJECT: The Value of the Paper Pound

FROM Mr. Carl Snyder

go into the banks. It would not be the basis for the expansion of bank credits.

It would be, to all intents, immobilized or impounded, exactly as the 140 million pounds of gold in the Bank of England are now.

And if this rate were fixed and the bill pressure swung around the other way, this gold would flow out simply because more bills would be sold by them than were offered, exactly as under normal conditions. All this is not theory, it is simple fact. It is pure theory, or conjecture as to what the British Government might later do to valorize or devaluate the pound. What the Bank of England or a syndicate would do would be simply to <u>average</u> the price now made by the current demands of business; nothing more.

A single dealer in New York, with unlimited funds, could do exactly the same.

A hundred years ago, misunderstanding or blind adherence to a mistaken theory cost England ten years of stagnation and hard times. If we are to learn nothing from history, of what good is economics?

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 21, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Carl Snyder

There is a very interesting article in the current number of the new "Economica," on the working of the gold exchange standard in England, and just why it broke down. You know Addis was on this committee.

Sorry not to read this. I got soaked on the Rupee, a year or so ago, also in India last year. But I believe in the Gold Exch. Standard for both India & Philippines. Their trade permits it, and all that justifies it. BS.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 22, 1921

TO Governor Strong

SUBJECT: Keynes Book

FROM Mr. Carl Snyder

Very sorry indeed to know that you are under the weather.

I'd like you to know that my remedy, the new serum treatment, seemed to work very handsomely for a third time. I had a severe bronchitis while you were away and was in bed most of a week; and it seems to have pulled me out very nicely.

If you are feeling well enough to take notice, I thought you might be amused at a few paragraphs in Keynes' book, about how strongly the gold exchange idea for India was opposed by the very ablest bankers of London.

Even as here and now!

The charts on foreign exchange are ready. It took a long search to get some of the material, for as you know a number of these exchanges were not quoted in New York until the last year or two.

Is there anything I could get you or do for you?

Don't forget that the Gold Exch. ~~Standard~~ broke down in India (first) because they omitted to provide for the decline in the value of silver & (second) because they omitted to guard against its appreciation! –

B.S.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 22, 1921

TO Governor Strong

SUBJECT: Street Loans and Country Balances

FROM Mr. Carl Snyder

Is not the relation of sensitiveness in the reports of the street loans and your reports just the other way around? When conditions are sound a strong bond market generally, almost invariably, precedes an upward move of the stock market. The street loans include loans on bonds taken over by the dealers while, as I understand it, your reports do not. The amount of bonds sold in the Stock Exchange, of course, is small as compared with the total of sales through dealers, etc. It may happen then that the dealers make large purchases and finance them with the loaning banks, and these will appear in the street loans long before there is any indication of an increase in your reports, which deal principally only with stocks.

Moreover, in times of very great dullness many of the large brokerage houses are unable to utilize all their funds and their accounts may have a very considerable rise before their oloans begin to make any difference in your reports.

Moreover, the return of country bank money to New York and the rise of their balances is one of the surest signs that the stress is over and that healthy liquidation is proceeding. It seems to me, therefore, that these two items, street loans and balances, are likely to be much more sensitive than the other.

MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 23, 1921

TO Mr. Jay

SUBJECT: Sir Charles Addis' Address

FROM Mr. Carl Snyder

Sir Charles Addis' address is essentially the same as what he was saying here, and saying very well. I think it illustrates very well my favorite idea that reason counts for very little in economics, as anywhere else--that our economic ideas are simply emotional reaction from traditions and surroundings.

This is a pretty notable example, because Sir Charles is a great personal friend of Keynes, and spoke of him when he was here with the highest admiration. His argument is very largely directed against Keynes' position.

More than a hundred years ago Ricardo wrote to the effect that:

> "Half a ~~A~~ century hence it will scarcely be believed that directors of the Bank of England would appear before Parliament to avow their belief that an unrestricted issue of bank notes not backed by an adequate amount of bullion would have no effect upon prices."

Scarcely any banker would go quite this far now, but it is essentially the base of the banker's position as regards exchange. They cannot ascribe the principal cause of depreciation to the issue of an excess of bank notes; but I think we have the clearest evidence that this is exactly the case.

Sir Charles has his little fling at "claustral" economics, but I have very much the idea that, if the advice and ideas of the "claustral" economists had been followed, England would not be in the very serious situation I believe she is in now, and where I believe she will continue to flounder for the next eight or ten years if the ideas of Sir Charles continue to be followed.

But my feeling is that there is more light and more statistics in the world now, and that Keynes was right when he told us last summer that it would take England about a year and a half or two years of her usual muddling to work her way through to a clear perception of what was the trouble, and that then they would not, of course, do such a thing as "devaluate" or revaluate. They would call it pegging. It will be interesting to see if he is right.

November 25, 1921

Governor Strong "The Budget"

Mr. Carl Snyder

I was awaiting your return to talk to you about this. It is very difficult to compare the cost of such a publication, printed on news stock and presumably on a rotary press, with our Monthly Review, which is on a much better grade of paper and very carefully printed. It is very easy to get an exact estimate from as many sources as desired, if the Committee will furnish the specifications. Our Review is now being done by the Publishers' Printing Company, and I have had a good deal of experience with them in previous years, and have found them a very agreeable and desirable firm to do business with.

My suggestion would be, if you wish to go further in obtaining estimates, that the Committee get in touch with Mr. Gantz, of the Publishers' Printing Company, and give him as close an idea as possible of just what is wanted; and I am sure the figure he would give you would be a very reasonable one and approximately that which you could get from any other reputable printing house.

The estimates for editorial cost, etc., are quite separate from this, and would pretty much depend on the class of matter and the amount of original work that would be involved.

Our agreement with the Publishers' Printing Company attached.

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 29, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

I gave Prof. Fisher a note of introduction to Hartley Withers and to Kiddy, and I think he pretty well knows most of the rest.

I imagine the last paragraph of this note was just a general request to his correspondents, and does not call for any reply.

OK
BS

MISC.3.1-200M-9-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 29, 1921

TO Governor Strong

SUBJECT: Kenyon Bill.

FROM Mr. Carl Snyder

This bill was under discussion last Friday by the group, which includes Prof. Mitchell and the rest of us. It was agreed that some of the phrasing needed a little modification, as obviously the United States Government could scarcely go into the business of predicting panics or notifying the public when one was due, especially as no one has yet had the brains to do this anyway.

The main object to be achieved, apparently, is that of taking it out of the hands of the Senate Committee on Printing, to be able to suppress the publication of business reports of the Department of Commerce, if it should happen to have a great fit of economy. For the rest, it was agreed that the idea was fairly harmless and might be very cordially commended.

In point of fact, it is very doubtful if any Government official could very seriously retard the flow from the pork barrel, once such a flow has been authorized by Congress.

I believe I am one of the original proponents of this general scheme, but I have never felt that the Government was any likely agent for its exploitation--rather the railroads and big corporations; and this latter is a matter for economic education.

And this latter, I think it is clear, is coming rather rapidly.

Draft of letter attached

(Copy of Senate Bill 2749, introduced in the Senate November 16, 1921, by Mr. Kenyon and referred to the Committee on Education and Labor.)

A BILL

To prepare for future cyclical periods of depression and unemployment by systems of public works.

Whereas a sound economic policy requires that a larger percentage of the public works and projects of the United States be undertaken and prosecuted during a period of major industrial depression and unemployment, when labor and capital are not fully employed in private industry, that a smaller percentage of such works and projects should be undertaken and prosecuted during a period when private industry is active and competing for the same men and material with resulting business strain and overextension, and that the prosecution of such works and projects should be utilized as a stabilizing force during a period of over-expansion as well as during a period of depression. It is the purpose of this Act to grant the authority necessary to carry out this policy: Therefore

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the head of each executive department is authorized to prepare and to periodically revise the necessary plans for all public works and projects within his jurisdiction concerning which a report has been requested by Congress or a committee thereof under the provisions of existing law, and to make the surveys and to prepare the engineering plans necessary for proposed public works and projects, in order that the work may be commenced immediately and properly prosecuted when an appropriation becomes available therefor.

Sec. 2. (a) That the Secretary of Commerce shall prepare and publish monthly reports as a supplement to the Current Survey of Business of the Bureau of the Census, or otherwise, concerning the trend of business conditions, the approach of periods of business strain and overextension, or of periods of business depression, in order that the President, the heads of the executive departments, the Congress, the governors of the respective States, the mayors of cities, and persons engaged in private industrial enterprises may properly prepare for and plan against such periods.

(b) The Secretary of Commerce shall transmit, with his recommendations, copies of such report to the President, the heads of departments, and to the Congress.

(c) The Secretary of Commerce shall utilize the available statistics collected or compiled by any department, bureau, office, or agency of the Federal Government or of a State, or by an industrial, banking, labor, or other association, and he is authorized to obtain such additional facts and statistics as may be necessary to carry out the provisions of this section.

Sec. 3. That the head of each executive department is authorized, upon the advice of the President, to postpone the date of the commencement or retard the prosecution of such portions of the public works and projects within his jurisdiction as may be necessary, in order to prepare for and to prevent a further rise in the cyclical wave of industrial expansion and resulting business strain and overextension and, within the appropriations therefor, to enter upon a maximum program of public works, and projects as a preparation for and in order to counteract an impending period of industrial depression and unemployment. Where a time limit has been specifically provided within which any such work or project, or any part thereof, is to be commenced or completed, this section shall not be construed to extend or remove such limit.

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MISC.3.1-90M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1921

TO Governor Strong

SUBJECT: Prof. Davenport's Pamphlet

FROM Mr. Snyder

Can you arrange a luncheon when I Return, when you, he & I can talk over some of our problems.
BS

I had lunch with Prof. Davenport yesterday, and he wishes me to say that he sent you his address on "The Post-War Outlook," delivered at The American Economic Association last December, as a kind of reply to your letter and enclosure of the testimony at the Agricultural Inquiry; and as expressing a little bit of his idea about it. He says that he would be very glad to come in and talk to you about some of the questions raised, when you are back, if you desire. But he does not want to embarrass you by asking an interview. He is, as you know, a very stimulating and interesting man.

MISC.3.1-200M-9-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 30, 1921

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

We have been keeping these foreign exchange charts for your return. Perhaps you would like to have them now. Some of them were rather hard to get. We grouped them, as you will see.

I also have a little word on sterling exchange in this week's Summary.

N.B. As to the general question of attempting stabilization, after listening to Monday night's two hours' oration by your friend Mr. V., I am rather perausded that your view of a Fabian watchful waiting is perhaps the wiser course--especially if last night's product was the best that our "best minds" can offer.

May I draw your attention in the first of the charts, also, to the fact that both francs and lire, since about the first of 1920, have also appeared to run on a particularly even keel, as you will note?

Hold for discussion on return

BS.

MISC.3.1-90M-1-20

File

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 2, 1921

TO Governor Strong

SUBJECT: Conferences of Statistics

FROM Mr. Carl Snyder

Department

Yesterday afternoon Mr. Sailer gave us a very interesting talk, and at the close he and Mr. Case and Mr. Hendricks got to "reminiscing" a bit.

This suggested that the Thursday-before-Christmas Conference of the department be thrown open to the bank generally, and that it be an Old Timers' Experience Meeting, telling about the early days of the bank and its organization. If this meets with your approval, we hope very much that you can be present, and preside. no! those are your parties.

Sure!

The little personal note that was struck yesterday seemed to go wonderfully and suggested that this was a real way to promote community interest in the bank.

RECEIVED DEC 3 1 32 PM '21
INCOMING MAIL DIV
FEDERAL RESERVE BANK
OF N.Y.

x Kenzel
Hendricks
Matteson
[illegible]
Gilbraith
Rounds
Reed

December 2, 1921

Governor Strong and Mr. Jay

Mr. Carl Snyder

Suggestion Contest Score

We are feeling rather proud of ourselves. The score by departments in the Suggestion Contest, the net net number of suggestions from each department, was, for the six highest, as follows:

Collection Department	154
Check Department	100
Cash Department	95
Securities Department	81
Custody Department	71
Statistics Department	408

In this department every member contributed at least one suggestion, and the youngest member, both in years and service, Miss Rudd, was among the six highest, each of whom contributed twenty or over. These were:

Stanley Shaw

Dr. Burgess

Mr. Bellah

Mr. Snyder

Miss Burnett

Miss Rudd

FEDERAL RESERVE BANK
OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TIME ______ ______ A. M. P. M. DATE ______

TO Gov. Strong - DEPARTMENT DIVISION SECTION

REMARKS

A rather good bit.

FROM CJ DEPARTMENT DIVISION SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

"The frontiersman's attitude towards banking and credit," from Prof. Edward Channing's new "History of the United States," Vol. V, 1921, page 434:

"A reaction from this period (preceding 1829) of agricultural and industrial expansion was inevitable, but it must be said that both the going up and the coming down were greatly hastened by the actions of the President. Jackson, himself, had never had anything that could be remotely termed a business education. He had a plantation and slaves, but his income for the most part had been derived from offices that he had held and especially in the later years from his position in the army. As a frontiersman, he regarded credit and banks as something provided by nature and the government for the benefit of the converter of new lands to the uses of civilization.

"There is something fascinating in the ingenuousness of the frontiersman in these matters. He has no objection whatever to the establishment of banks by the State or by individuals and at once proceeds to borrow money, giving a mortgage on his crops and lands in return. As the people come from the East, as the forest is cleared away and the ground brought under cultivation, his property will double, treble, or quadruple in value. To him it is worth not what he paid for it or what he could sell it for at the moment, but what he can obtain for it in eight or ten years' time, if everything goes well. To him time is no object: in the spring he plows and plants and through the summer and into the early autumn watches the forces of nature bringing the crops to fruition with a little hoeing or cultivating, now and then; and in the autumn he collects the reward of his labor and of nature's work.

"As he joyfully ponders the affairs of his farm or plantation, it appears certain that if he can clear more land and employ more labor he will gain ever increasing returns. It is at this point that he goes to a banker to borrow money and finds the man of the counter possessed of a "horror of land," for it is difficult to handle if taken on execution. Moreover the banker is ill appreciative of future land values. He will loan money only on a portion of the actual selling value of the land at the moment. And then the banker will sharply limit the duration of his loan to three months or possibly to six. Farm improvements mature slowly, and when the time for payment comes the frontiersman sees no reason for haste. The land is constantly improving in value, and the bank, therefore, is perfectly secure. The interest will go on, corn or cotton will be much higher in thirty days or in two or three months; why not postpone the payment, therefore, especially as money is a little scarce at the moment, the demand for labor on the farm urgent, and travelling difficult? To the banker, the aspect of things is very different; his obligations must be met on the moment, and, therefore, if the debtor cannot or does not pay what he has promised, the only thing to do is to take the property that was mortgaged as security and sell it for what it will bring. There was thus a wide gulf between the ideas of the farm and of the bank. Furthermore there was little capital in newly settled regions that was not already invested in land; the capital for new enterprises necessarily came from the older settled parts of the country. It seemed, therefore, as if a few capitalists, living afar off, were consuming the fruits of the farmers' labors.

"Jackson sets forth the frontier view in his letters. He declared that banks are capitalistic institutions whose sole function is to make money, and capitalists united in corporations are devoid of ideals. In short, according to him a bank is not a charitable institution as it should be, but one where profit is the sole object even at the cost of oppression to the people.

"Somewhat similar ideas as to banks and bankers were held by most people throughout the country, even in the Old Thirteen. To them there was something obscure in the workings of financial concerns and the word "credit" possessed little meaning. A banker or a bank opened an office, issued notes in exchange for mortgages or other collateral security, and demanded interest oftentimes at a high rate, from twelve to twenty-five per cent. a year. The borrower took the notes and immediately paid them out to the government for more land or to a trader for more stock or slaves. It seemed as if nothing had been transmuted into something, lands, cattle, or labor; and the only person to profit immediately was the banker, and thus he who had contributed nothing tangible was the first person to be rewarded."

Snyder K

ACKNOWLEDGED
JAN 30 1922
B. S.

THE HOTCHKISS SCHOOL
LAKEVILLE, CONN.

Jan. 1. '22

Dear Governor:

I hope you know and realize how much we have all missed you, and how glad we are to know you may soon be back. For at least one person which is me, & I imagine many others, the bank is simply not the same place when you are away. And events are gathering, if I mistake not, in the political field, when you may be sorely needed.

For a talk at the bank which Mr. Morgan has suggested, I have been going quite thoroughly into the causes which brought to an end the First & Second Banks of the U.S.

It is astonishing how many elements, at least in the fall of the Second, resemble the present situation. I hope your courage and strong influence may be available when the time comes. It may be vital.

Here's warmest good

wishes for the new year, & full recovery to health! I should like to add very sincere appreciation of the many kindly courtesies & friendly interest you have shown

With high regards

Always

Carl Snyder

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 10, 1922

TO Mr. Snyder

FROM W. R. Burgess

SUBJECT: Index of business conditions published by the American Telephone and Telegraph Company.

The index of business conditions of the American Telephone and Telegraph Company is made up of the following items with the percentage weights indicated:

	Per cent.
Outside bank clearings deflated by the price index of the Department of Labor according to a formula making allowance for the lag in the effect of price changes	~~25~~
Pig iron production	20
Gross revenue per ton mile	15
Number of business failures inverted	10
Copper production	5
Cotton consumption	10
Bituminous coal production	5
Prices, Department of Labor index	10

These figures have never been published except in a confidential report on business conditions.

For revised contents see art. by Rorty. Harvard Bus. Review. No 2? - 1923.

3.1-200M-9-20

FEDERAL RESERV[illegible]
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 1[illegible], 19

TO Mr. Jay

SUBJECT: The Currency Needs of the Country

FROM Mr. Snyder

Jan. 13, 1922

This department is bringing to a conclusion a study which has extended over a rather long period and which is, I think, of fundamental importance in the determination of our currency policies, and of especial importance just now, when we seem on the eve of a tremendous campaign for currency inflation and fiat money. Our investigation proves, conclusively we think, that:

<u>An expansion of the currency, or of bank credits, beyond the normal rate of increase, does not bring any corresponding increase in production or in the volume of trade.</u>

<u>Its sole effect, apparently, is to inflate prices, excite speculation, bring on great speculative "booms," with an ensuing panic and collapse.</u>

The statistical and conclusive proof of all this has hitherto been lacking. We now have this proof, and it extends, by induction at least, over something more than a century.

It was most conclusively shown in the late war period and after. In that period the peak of the nation's production was reached in the latter half of 1916 and the first half of 1917. Our results here are fully confirmed by the parallel and independent inquiries of the Harvard Bureau of Economic Research under Prof. E. E. Day, of Prof. W. W. Stewart at Amherst, and of Prof. W. I. King, of the National Bureau of Economic Research. Their results, as ours, show that this peak of production was not sensibly exceeded either in the war or in the great boom that followed the war, and this in spite of the enormous increase in the volume of circulating medium in the form of currency and bank credit.

Our results show further that within the last half century there have been periods of normal or more than normal production, when the volume of the currency was not increasing at the normal rate.

We have, moreover, established what was this normal rate of increase in the currency over more than a period of a century. This normal rate of expansion is at about $3\frac{1}{2}$ per cent. per annum and has not sensibly changed in any quarter of this period.

Where the rate of expansion in currency has exceeded this normal rate there has been almost invariably a corresponding increase in prices.

Further, we have established that in the last half century, just as far back as the statistical material extends in sufficient quantity, the normal rate of production is likewise about $3\frac{1}{2}$ per cent. per annum.

We find further good reason to believe that [illegible]e volume of trade in physical terms, tha[illegible] is to say, the total quantity [illegible] goods and services

3.1-200M-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 13, ..

TO Mr. Jay SUBJECT: The Currency Needs of the

FROM Mr. Snyder 2 Country

and services sold, has likewise grown at this same normal rate of 3½ per cent. per annum.

In other words, we have found, and we believe that this is a discovery of fundamental import, that the amount of currency needed corresponds exactly with the total amount of goods produced, and that this total production is not increased through an expansion of the currency.

The increase of bank credit is at a somewhat greater rate, a little over 6 per cent. per annum, owing to the increasing use of checks in the handling of business. Here again it is clearly shown that a great expansion of bank credit means no corresponding expansion in the rate of production.

It was with the idea that we might establish a new point of view, based upon definitely ascertained facts instead of abstract and unverifiable theory, that this department began, nearly two years ago, the tabulation of indices of production and trade which would show exactly what was the rate of growth in our industries and whether that rate of growth varied very greatly from one decade to another. We have established that it does not.

We have carried this inquiry back for nearly half a century in fifty of the most important lines of industry.

We have then carried back the same inquiry, so far as the material extends, in important individual lines, as, for example, pig iron production back to 1854, bituminous coal production back to 1822, anthracite coal production back to 1821, and cotton consumption back to 1827.

All of these tell the same story, viz., of a very steady rate of growth from one decade to another, scarcely interrupted save in cotton consumption even by the period of the Civil War.

This inquiry, I should like to point out, has been the work of the small group known as the Research Division. I cannot help the feeling that it should be worth, in the next two or three years, to the country and to sound business and to sound banking, tens or hundreds of times its cost.

In the Bryan free-silver campaign, and in the dark days of the greenback craze, we could argue and believe but we could not prove. Now we have definite proof.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Jan. 19, 1922

TO Governor Strong

SUBJECT: The effect of bank expansion

FROM Mr. Snyder

It is very good news that you are getting along so well, and I hope devoutly it will continue.

The passage of the Senate bill, adding a "farmer" to the Reserve Board has stirred me to reflections, as I dare say it did you.--As though the addition of a "farmer" was the remotest step towards that foreknowledge, prescience and understanding which alone would contribute in any way to the solution of the farmers' problem.

I confess to a very great disappointment that the Reserve System has not seemed to be more effective in preventing the wild runaway of prices which came with the post-war boom, and the inevitable and invariable collapse which followed it. And it is this failure, of course, which has brought on the whole of the present agitation.

I want to show you as soon as you get back some extremely interesting results we have been obtaining lately, which seem to show conclusively that:

(1) The great rise in prices did not stimulate production. So far from this, it seemed really to check production in many lines.

(2) In many leading and most important lines there was no overproduction in 1920, using this word in the sense of the quantity being above or below the line of normal growth.

(3) So far from this, in the iron industry, the copper industry, in cotton spinning and perhaps several others, production has rather been below this line of normal growth than above it in the three years since the war closed.

(4) The <u>only</u> effect of the great expansion of bank loans, therefore, was the great rise in prices and the resulting collapse, with all the disturbance to society and business and human happiness which this brought about.

I feel that this is very important work that we have done, and I want to go over it with you; and if you are convinced that it is sound and unimpeachable I should like to talk with you about ways and means of utilizing it for the education of public opinion.

It seems clear that we have a very serious fight ahead of us, and the one thing that has always been lacking in sound money controversies has been very clear and incontrovertible proof.

I attach a little memorandum to Mr. Jay about it.

OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 7, 1922

TO Governor Strong

SUBJECT: Letter to Mr. F. W. Foote

FROM Mr. Snyder

I should rather like you to see the reply to Mr. Foote and his answer. It was quite a job to dig out the material, and I thought of sending a copy of it to Mr. Perrin, of San Francisco. The Vice President of one of the Land Banks out in California has been making a similar charge, and, as you see by this correspondent, refuses to recant.

You will see that the source of all this stuff was the same, i.e., Mr. Brookhart, of Iowa. I thought of writing directly to him a very nice note of inquiry as to the source of his figures. Do you approve?

Chairman Anderson also wants a copy of the letter, as per enclosed.

Foote's point about his own State is well taken

B S

...AL RESERVE BANK
OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TIME ______ A. M. / P. M. DATE ______

Gov. Strong:

DEPARTMENT
DIVISION
SECTION

REMARKS This was revised & softened a little.

FROM CJ

DEPARTMENT
DIVISION
SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

[2/7/1922 ?]

Mr. F. W. Foote,
Vice President, First National Bank,
Hattiesburg, Miss.

Dear Mr. Foote:

As Governor Strong is away, your letter regarding farm loans was referred to this department. We have had considerable difficulty in getting at the source of the statements made by ex-Governor Brough, in the newspaper clipping which you sent. Apparently they had their origin in the testimony given by Mr. Brookhart, representing "a National Farmers' Union, of Washington, Iowa," in a hearing before the Joint Commission of Agricultural Inquiry last summer. His testimony is given in Part I of the hearings, page 9 ff. Therein he declared (page 11):

> "Of the primary deposits in all the banks of the United States, agriculture furnished approximately 50 per cent., labor 20 per cent., and other business 30 per cent.
>
> Senator Capper: "Are those official figures?
>
> Mr. Brookhart: "No; those are estimated; but I will sustain them with some official figures that point quite strongly to this conclusion."

But no official figures were given. On page 18 he says:

> "I figured that (the percentage) out with Mr. Howard, the president of the Farm Bureau, just before the war, and we estimated, after considering everything, that it was above 50 per cent. that was deposited by the farmers."

Again, on page 29, he says:

> "But let us assume that my claim is true that 50 per cent. of the bank deposits are made by farmers," etc.

We have been able to obtain no evidence that there is any foundation for these estimates in fact, any more than for Mr. Brookhart's further statement that (page 12) the farmers pay "56 per cent. of the freight rates," etc., of the country.

So far from this, there is much to suggest that the proportion of deposits in the banks of the United States furnished by agriculture is relatively small.

For the Agricultural Inquiry last summer this bank made an elaborate computation, which is summed up on page 653 of Part 13 of the Hearings, in the part containing the testimony of Governor Strong. Analysis was made of the capital, deposits and loans of about 9,500 banks included in the Federal Reserve System, by counties, classifying the latter as agricultural, semi-agricultural and non-agricultural. The basis of this classification is given on page 650, wherein it is stated that:

> "Counties were classified as agricultural when the value of their products according to data obtained from the 1920 census reports, the Geological Survey, the Bureau of Soils, and all other available sources was estimated to be not less than 80 per cent. agricultural, as semi-agricultural when their products were between 50 and 80 per cent. agricultural, and as non-agricultural when their products were less than 50 per cent. agricultural."

Combining the two first divisions of agricultural and semi-agricultural, it is still shown that the percentage of capital and surplus in these 9,500 banks in these counties was only 27 per cent. of the total, and the percentage of time and demand deposits in the banks of these counties was only 25 per cent. of the total.

It is perfectly true that a large number of deposits from farmers may be included in the banks in counties classed as non-agricultural; but, on the other hand, it is likewise true that possibly one-half or even two-thirds of the deposits in the banks classed as agricultural or semi-agricultural were not from farmers but from merchants and others in the towns. Balancing these two there is much reason to believe that the proportion of deposits derived from the farmers is much less than 25 per cent., rather than more.

This conclusion is borne out by several divergent considerations, first of all, we now know approximately what is the total income of the people who live on the farms, as compared with the total of the whole country. This has recently been made the subject of an elaborate inquiry by the National Bureau of Economic Research, an impartial organization of the highest standing, and under the direction of Prof. W. C. Mitchell. Their estimate for the years of 1917, 1918 and 1919 is that the average income derived from persons living on the farms was less than 20 per cent. of the total income of the people of the United States. This included the cost of the articles produced and consumed on the farms.

These estimates accord little with popular conceptions and customary statements; but they are certainly the most careful that have ever been made and their impartiality is above reproach. For the rest, it seems clear that the wealth, production, and in general the importance of the farms have been in recent years quite absurdly exaggerated. Farming today is only one of our most important industries, and not more.

The proof of this is very clear. We usually think of "the West" and "the South" as comprising the great agricultural area, while the great bulk of the manufacturing is done in a narrow section of the Northeast. Some figures regarding the latter are rather instructive. If we take the area east of the Mississippi and north of the Ohio Rivers, we find that this small section is but about 17 per cent. of the whole of the United States, yet it contains nearly three-fifths of the population, three-fifths of the wealth, does three-fourths of the manufacturing, produces seven-eighths of the coal and iron of the country, and has three-fifths of the total railway traffic, measured in ton miles.

All the rest of the country, known generally as the West and the

(A)

As you know, the total of farm mortgages more than doubled from 1910 to 1920, and in my own native State of Iowa there is clear evidence that this huge increase of debt (in that State 139 per cent.) was almost exclusively due to the buying of more land and did not increase the total yield of the State by even half a million bushels of grain. I believe this was generally true for the whole country. All this new credit brought practically no increase in production.

South, does only one-fourth of the manufacturing, has only two-fifths of the population, two-fifths of the wealth, and two-fifths of the railway traffic.

Now,when we come to banking strength, we find that in the 30,000 Reporting Banks of the United States the percentage of capital, surplus and deposits in the banks of the Northeast section is equal to two-thirds of the whole. It is perfectly true that, even in this Northeast section, in states like New York and Illinois, farming is still an important industry.

But, on the other hand, it is equally true that the other 83 per cent. of the country also has large cities and large business enterprises demanding heavy banking credits. I doubt if it could be shown that, even in this distinctly agricultural area, one-half or even one-third of the bank deposits could be derived directly from "agricultural interests," that is to say, not one-half or one-third of one-third of the total of the country.

I should like to go further and suggest that, on the other hand, it seems probable from all the available data that considerably more than one-third of the total of all loans in the United States, banking and otherwise, are devoted to agriculture and to the movement of agricultural products to market.

First of all we have the recent census figures on farm mortgages.

On about two-thirds of all the farms of the country, viz., those operated by their owners, the total of farm mortgages outstanding in 1920 exceeded 4 billions. This means a total of between 5 and 6 billions for all the farms, including those operated by tenants. (A)

In the compilation of this bank, referred to above, as to the total of deposits and loans in the agricultural and non-agricultural counties of the Union, it was likewise shown that in the 9,500 Reporting Banks included in the Federal Reserve System the total of loans and discounts in the banks in the agricultural and semi-agricultural counties last April exceeded

$4\frac{1}{2}$ billion dollars, as against about 14 billions in the non-agricultural counties. This would be approximately 25 per cent. But even if we suppose that the proportion for all the country was less than this, and only about in proportion to the farm income, viz., about 20 per cent., this would still mean something like 5 billions out of a total of approximately 25 billions of commercial loans in the banks.

It may be that there is here some duplication, but it is also to be remembered that we have 3 billions and more of loans by savings banks and others, a considerable part of which goes to the farmer.

It is further impossible to distinguish in bank loans between those made directly to the farmer and to middlemen, speculators and others. It is well known that the banks of New York, Chicago, New Orleans and other large cities make very large loans on cotton, grain, hogs and other farm products, some of which goes to the speculators, but also a very large part to the millers, shippers and cotton factors, without whose intervention the successful marketing of the crops would be almost impossible.

Taking it as a whole, I would hazard the guess that at least one-third of the total loans of the country, including both bank and mortgage loans, is upon farms and farm products. In other words, that, so far from the farmer or farming industry being starved of credit, the probability seems to be that it has credit all out of proportion to its actual value and importance.

Instead of the farmer being the heaviest of depositors, it seems probable that he is among the smallest in proportion to his numbers, and, on the other hand, that he is among the heaviest of borrowers, and that out of all proportion either to his numbers or the worth of his product.

This cry of more credit for the farmers has, as you know, been chronic practically from the foundation of the first banks in the United States. Nothing is more instructive than to go back seventy or eighty years, at the time of the opening up of the Ohio and Mississippi valleys, and to read of the enormous loans extended by the East to these States and the calm way in which they then proceeded to resist payment, oftentimes either of principal or interest. Your own State of Mississippi, if you recall, contributed one famous page to this instructive story.

At that time the agricultural population made up 85 per cent. or more of the total of the country. Today it is but a little more than 30 per cent., and steadily declining.

The total amount loaned by banks, companies and individuals to the farmers at the present time is, in proportion to the number of farms and farmers and the total value of the product, undoubtedly greater today than ever before in the history of the country.

Very sincerely yours,

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE ______ 192__

TO ______

FROM ______

SUBJECT: ______

Page 6 & 8
Agricultural Inquiry
Part XIII

Percentage of capital and surplus of member banks in agricultural and semi-agricultural counties to those of all member banks. 27%

Percentage of time and demand deposits of member banks in agricultural and semi-agricultural counties to those of all member banks. 25%

$\boxed{9500}$

~~1850~~ / 45000

MISC.3.1-200M-9-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 7, 1922

TO Governor Strong

SUBJECT: Judge Pendleton's letter

FROM Mr. Snyder

We have nothing in the way of literature which deals effectively and in detail with the points which Judge Pendleton raises. I should like very much to get up something on just this line for your consideration. To this end, may I ask if you have had a look yet at the little sketch of a booklet on the Federal Reserve System which I did rather hurriedly a week ago? It was given to Mr. Jay.

I should like very much to get your reaction on it, and whether its general tone and character might be continued for the Pendleton matter. My observation is that the understanding of lawyers and others on matters of finance does not differ very much from that of the average farmer.

Sent

Glass' Speech

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 15, 1922

TO Governor Strong

SUBJECT: The Edison Questions

FROM Mr. Snyder

With reference to making a distinction between gold money and other kinds of money, in the reply to Mr. Edison:

The very first question Mr. Edison asks is:

> "What, in your opinion, would be the approximate market value of a troy ounce of pure gold if all the governments of the world should demonetize it?"

That is, of course, a question no human being could answer, but it is fairly certain that, with the vast stock of gold now existing, it would fall heavily in its exchange value for other goods, if its use as money was wholly discontinued.

The industrial demand for it could not take care of this huge stock in ~~the~~ a generation.

Therefore, does it not seem better not to attempt to make any distinction between gold and paper money, because the point he makes that part of the present value of gold is dependent upon its legal tender qualities?

Eventually, of course, over a sufficiently long period the value of gold would be determined by the relative labor cost; but even here the demand would be a large item, for it would determine whether or not certain mines were to be worked or not.

Revised letter attached.

MS-2 150M-9-20

FEDERAL RESERVE BANK OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE MESSENGER SECTION

TIME ______ A. M. P. M. DATE ______

TO Gov. Strong x

DEPARTMENT DIVISION SECTION

REMARKS Street loans and country balances

FROM G

DEPARTMENT DIVISION SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.

TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

MISC.3.1-200M-9-28

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 14, 1922

TO Mr. Snyder

SUBJECT: Street Loans and Balances of Correspondents

FROM R. G. Bellah

	Low Point 1921	Feb. 10, 1922	Increase
Street Loans for Correspondents	$ 350,369,000	$ 511,325,000	
" " by New York Banks	318,669,000	497,043,000	
Total Sept. 3,1921	$ 669,038,000	$1,008,368,000	$339,330,000
Street Loans for Correspondents	$ 353,472,000	$ 511,325,000	
Balances of Correspondents	533,782,000	621,725,000	
Total August 31, 1921	$ 887,254,000	$1,133,050,000	245,796,000

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 21, 1922

TO Governor Strong

SUBJECT: Letter to Mr. H. A. Wallace

FROM Mr. Snyder

The attached draft of a letter to Mr. H. A. Wallace is on an important matter of policy, and I should be extremely indebted if you could find time to give me your judgment thereon.

If it met with your approval and seemed to you of value, I had thought that maybe the material might be used for a brief magazine article.

MISC. 4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 21, 1922

TO Governor Strong

SUBJECT: Income in the United States

FROM Mr. Snyder

I am wondering if you have seen the little volume on "The Income in the United States," from Prof. Mitchell's bureau. Although this represents more than a year's hard work of four of the best minds that have ever been trained upon this problem, you will see that its dimensions are very modest. It was something not more extensive than this which I had in mind for a book for Macmillan's. Sometime I should like to talk to you a little further about it.

No money to loan
direct
No power to direct,

44,
41,

MS-2 150M-9-20

FEDERAL RESERVE BANK OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE MESSENGER SECTION

TIME ______ A. M. / P. M. DATE ______

TO ______

DEPARTMENT DIVISION SECTION

REMARKS 2nd draft.
of Edison letter x

FROM ______

DEPARTMENT DIVISION SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

FEDERAL RESERVE BANK
OF NEW YORK

February 17, 1922

My dear Sir:

I have examined with care and attention the questions you have propounded. Needless to say, they are ingenious and interesting; but, if I may offer comment, as you invite, it seems to me that the same essential idea is contained in them all; and it is to this essential idea that I would address my reply.

That idea, as I apprehend, is that money and capital are practically the same thing. But a very little observation shows that they are not.

Capital consists in cultivated lands and machinery and processes wherewith to make goods and produce things; and likewise in the technical and professional crafts needful to carry on a great industrial state.

Money, if I may so phrase it, is merely the lubricant by which the great volume of needful exchanges is carried on. You can print money or manufacture it in any desired volume, and, by Government fiat, call it legal tender. But you cannot print or manufacture capital by fiat.

As, for example; it would be perfectly possible for our Government to print, let us say, 10 billions of new money, and, by undertaking large expenditures for public works or simply by bonuses, to force this money rapidly into circulation. Or it could print 10 billions in bonds and put them into the banks and expand bank credit by a corresponding sum.

But all this would not needfully add an appreciable amount to the actual capital of the country, that is, its ability to produce goods.

In fact we had, to all intents, exactly such a happening in 1919 and 1920. Our banks expanded their loans by nearly 6 billions of dollars, and this, injected into the business current, led to what? To a marked increase in production and in the means of production? By no means. In a few notable lines there was some increase, but for the country taken as a whole there was none.

We now know definitely and conclusively that the total product of the country in the three years following the close of the war, the total output of the farms, the factories, and all forms of productive industry, has been slightly below the level reached in the war, and below what would have been the line of normal growth if there had been no war.

The chief result of the great expansion of bank credit was simply a rise in prices, unprecedented in peace times, a great wave of speculation all over the country, a serious demoralization of the morale of the workers and producers, and, following that, as invariably and inevitably comes, a very severe collapse.

Investigation during the last year or more, by several different agencies, has shown that in the last half century the productive capital of the nation, its ability to produce goods, has grown pretty steadily at the rate of about 3½ per cent. per annum. In this time we have had a dearth of money, with falling prices, and great surfeits of money, with rising or soaring prices. And throughout it all the real and actual production of the country has not materially varied, except in times of crisis, as in 1893 and in the last year.

There is another side to this question that may be called the moral side. Those who profit chiefly by a great rise in prices are the speculators and gamblers and the owners of lands and machinery. And what they gain thereby comes from the pockets of all the people, the poor, the thrifty and the hard-working, whose incomes and salaries can never advance at the same rate as prices.

Inflation simply puts a premium upon profiteering, stirs up every kind of social unrest and discontent, and spreads among the people a feeling of the injustice of society. Those who have undergone privations to save a little money find their savings worth two-thirds or half as much as before. They have been robbed of a considerable part of their holdings. That, indeed, was John Stuart Mill's definition of inflation, simply robbery.

I cannot believe that you or Mr. Ford, or others who have proposed various schemes for expanding the currency of the country truly wish to bring about any such result. I think it is laboring under the mistaken impression that there is a dearth of currency and money in this country. I cannot put it too strongly when I say that this is absolutely the reverse of the fact.

There is now no dearth of money or of bank credit in this country. On the contrary, we have the machinery to create as much of it as could possibly be needed to promote a healthy growth of enterprise and industry, perhaps even too much. I am not sure that this is not at the present moment our greatest danger.

It is for these reasons, my dear sir, that it seems to me that all of the questions you submit involve a fundamental misconception of the nature and effect of capital and money and the means by which the one and the other may be created or enlarged.

Please believe me, with great respect,

Very sincerely yours,

Thomas A. Edison, Esq.,

Pierre Jay,
Federal Reserve Agent.

4. 1-120 M-1-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Personal letter

DATE February 23, 1922

TO Mr. Jay

SUBJECT: Letter to Mr. Henry A. Wallace

FROM Mr. Snyder

Mr. Snyder show Mr. Wallace letter

Mr. Henry A. Wallace, Editor of Wallace's Farmer, and son of the Secretary of Agriculture, is one of the Vice-Presidents of the Stable Money League, and objected very strongly to one of the articles of the proposed Declaration of Purpose of the League.

Because I thought that this was a very good opportunity to go into the whole question of the relationship of the farmers to the banks, and the Federal Reserve Banks in particular, I have drafted the accompanying letter, which was to be a personal letter from me to Mr. Wallace. The draft is attached herewith, with the Governor's note. ?

H. A. Wallace, Esq.,
Editor, Wallace's Farmer,
Des Moines, Iowa.

My dear Mr. Wallace:

I have read with interest your letter to the President of the Stable Money League, objecting to the following paragraph in the League's Declaration of Purpose:

> "To defend the American banking system against all attempts at political or class control or interference."

You state in your letter that:

> "The farmers feel that there has been too much banking control of the American banking system."

As it seems to me this is one of the most important questions now before the country; and, because there has been incessant agitation endeavoring to represent that the banks of the nation are under some kind of control inimical to the farmers, or that the farmers ought to have a greater share in that control, might I ask your consideration of the following:

(1) First of all, there are in the country, as you know, a total of 30,000 banks, more banks than in all the rest of the wide world put together.

Moreover, where in almost every other great commercial nation the banks of the country are centered in a few large controls, and centrally owned, as in the case of the great banks of London, Paris, Berlin, and Canada, the banks of the United States are almost entirely locally owned and locally controlled. Practically speaking, branch banking or chain banking is unknown in the United States. No other country in the world has such a degree of decentralization of banking power.

(2) Of these 30,000 banks in the United States, more than 20,000, that is, more than two-thirds of the whole, are not members of the Federal Reserve System or in any way under the control of the Federal Reserve Banks. Outside of the 8,000 National banks of the country, only about 1,600 of the State banks and trust companies, out of a total of nearly 22,000 State banks and trust companies, savings banks and private banks, have become members of the Federal Reserve System.

(3) The larger part of these 20,000 banks outside of the Federal Reserve System are chiefly what are called "country banks," located for the most part in small towns and having a large part of their dealings with the farmers and those who locally handle the farmers' products, the grain buyers, the butchers, etc. Does anyone have the idea that these 20,000 country banks are under some inimical

"banking control," or under the control of "Wall Street?"

I think we have very definite proof that they are not. It is clear that "Wall Street," and many bankers and merchants of the East and of the large cities, and especially of New York, began to feel clearly the waning of the great boom of 1919-'20 at least early in the latter year, and began to curtail their commitments and reduce their bank loans. But the rest of the country, and especially the "country banks," went on expanding their loans and commitments until late in the year.

In fact, for the whole Federal Reserve System the peak of the loan expansion was not reached until the fall of 1920. But that of the New York district had been reached a full year before, and throughout that year had been steadily declining.

(4) Outside of the mercantile and manufacturing districts of Philadelphia, New York and Boston, there was no appreciable contraction of loans evident until the early part of last year. That was nearly a year after the fall of prices had begun, and not until after this fall in prices had passed all records of declines in prices in this country in more than a century. Does it seem fair to you to say, in the face of these facts, that "the bankers should not have shown such an overwhelming, such an indecent haste to get back to normal conditions, starting early in 1920."

(5) There was, similarly, no evidence of contraction in the currency until after the beginning of 1921, not 1920. The peak of expansion of Federal Reserve notes was not reached until in December of the latter year.

(6) I should next like to consider for a moment the idea persistently reiterated that agriculture is "the great basic industry of the United States," and that the prosperity of the whole country is dependent upon this single industry. It is clear that this is no longer true.

If you will take the portion of the country lying east of the Mississippi and north say of St. Louis, Cincinnati and Richmond, you will have an area which includes less than one-fifth of that of the whole country, only about 18 per cent. indeed, and furthermore an area in which the population on the farms is relatively small, in spite of the fact that it includes such rich agricultural states as Wisconsin, Illinois, Indiana and New York.

In this area more than 67 per cent. reside in the large cities or towns; and in this area are included sixty-one of the one hundred largest cities of the United States.

Now in this section, which I will describe as the North East of the country, there is contained:

(a) Three-fifths of the total population.
(b) Three-fifths of the estimated wealth.
(c) Three-fifths of the total railway traffic.
(d) Three-fourths of the total manufacturing of the country.
(e) Seven-eighths of all the coal and iron of the country.

Likewise in this North East section is to be found more than 69 per cent. of the total bank deposits of the country and more than 88 per cent. of all the savings bank deposits of the country.

Now consider what that means for all the rest of the country, more than 80 per cent. of the total area. It means that the remaining four-fifths of the country, the typically agricultural part of the country, has less than 40 per cent. of the population, 40 per cent. of the wealth, 40 per cent. of the total railway traffic, and less than 25 per cent. of the manufacturing. Moreover, it has less than 31 per cent. of the commercial bank deposits of the country and less than 12 per cent. of the savings bank deposits of the country.

Now the inquiry that I would make is simply this: Bear in mind that these bank deposits are locally owned and are the product of local increments in wealth. The disposition of these deposits is in the hands of the local banks exclusively. The amount of these deposits which is sent to the large cities for redeposit or for the purchase of commercial paper is almost negligible, less than 10 per cent. of the total.

Now is the idea back of the present agitation that the disposition of these deposits ought to be under some control or direction, political or otherwise, other than by the boards of directors of the banks in which the deposits are made?

There is now no such control, even by the Federal Reserve Banks or the Federal Reserve Board, even of that portion of the nation's deposits which are in the Member Banks of the Federal Reserve System. The only control by the Federal Reserve Banks or Board of any moneys at the present time is over the reserve deposits of the Member Banks, which amount to slightly less than 8 per cent. of the total deposits in these Member Banks, which means not much over 5 per cent. of the total deposits of the country. And the only control which the Federal Reserve Banks have over these sums is that of reloaning these sums, to the Member Banks themselves, or in the purchase of commercial bills. As you know, the Reserve Banks cannot directly loan a dollar to any person, firm or ordinary corporation in the United States.

or [illegible]

If there is to be any kind of control or direction of the disposition of the banking deposits of the United States, other than such as now exists, by whom is that control to be exercised, and is this control to be political or commercial? Is a body at Washington, or in the Federal Reserve Banks, or anywhere, to say arbitrarily that the deposits of a bank in Maine or Indiana or Oklahoma or Idaho are arbitrarily to be removed from the control of the banks in which they are deposited, and loaned to another set of banks, let us say in New York, or Chicago, or Iowa? And if so, on what plan or principle is such an arbitrary transfer of banking funds to be made? I should be deeply interested to know your idea or that of others who advocate it, what would be the plan of "control" of banking funds other than at present exists not only in this country but all over the world.

(7) There is, I feel, yet another side of the present agitation which deserves very careful attention, and that is the belief that the farmers always "get the worst of it," and that this is especially true at the present time. As to this, I submit the following:

According to the last census of agriculture, in 1910, the total amount of capital improvements on the farms of all the United States was reckoned about 12½ billion dollars. This included the value of all the buildings, implements, livestock and other improvements on the farms. Now, according to the Year Book of the Department of Agriculture, the value of all the farm crops in the last two years before the war was as follows:

1913	$6,133,000,000
1914	6,112,000,000

This did not include the value of animals and animal products, which was nearly 4 billions more.

Now, according to the same source, the value of these same crops in the four years from our entry into the war was as follows:

1917	$13,479,000,000
1918	14,331,000,000
1919	16,013,000,000
1920	11,145,000,000
Total	$54,968,000,000
Four years crops at 1913- '14 average value	24,492,000,000
Excess income in four years	$30,476,000,000

In the same period the value of farm animals and animal products more than doubled, so that if these were added this excess might run well above 40 billions of dollars. These are, of course, gross values and not net income. Nevertheless, I point out that it was still the excess income over and above what was the farmer's average income before the war.

No doubt a large part of this excess income was absorbed in increased costs of labor, living, machinery, etc., and in income taxes, possibly two-thirds.

But for 1919, a year of high prices and high wages, the Census gives the total expenditures of the farmers for labor, the board of help, and for fertilizer as only $3,000,000,000. Was it less than half this in 1913?

At this rate then the excess expense was not much over say six billions, leaving for the four years, a net excess of income over normal or prewar of the staggering sum of 24 billions for the crops alone.

But suppose it was only about half this. Then in four years they would have had a net excess income over their normal income equal to more than all the capital improvements on all the farms of the United States accumulated through a hundred years and more of American farming.

Supposing, now, that the farmer has <u>one bad year</u>, 1921. Is all this colossal excess income in the four years from 1917 to count for nothing? Has it all been lived up, squandered, or frittered away? I do not believe it. I believe the American farmer at the end of 1921 had more wealth, and at the present moment has more wealth, comfort, and a larger share of this world's goods in proportion to the rest of the population than ever before in his history, prior to the world war.

Maybe in the Civil War and just after there was something comparable, but nothing to the same degree, for in the Civil War prices reached their peak in 1864 and fell rapidly and continuously from that point.

(8) One thing we do know, however, and that is that the farmers of the nation did not use this 10 or 15 billions of excess income in these four years to pay off their debts. On the contrary, as a whole, according to the Census, the farmers from 1910 to 1920 doubled their debts. In your own State, which is also my native State, farm mortgages, as is well known, rose 140 per cent.

In other words, it seems to me that, perhaps of any decade in the whole history of the nation, the farmers of the country have now the least reason to complain.

(9) There is another side to consider, and that is the farmer's own contribution to the wealth and to the banking deposits of the country. At the Joint Agricultural Conference, held in Washington last summer, of which Congressman Sydney Anderson, of Minnesota, was Chairman, Mr. Smith W. Brookhart, of Washington, Iowa, made the assertion that the farmers of the country "contribute 50 per cent. of the primary deposits of the banks of the country;" and this statement has been repeated all over the country, and this percentage compared with the percentage of loans made by Federal Reserve Banks to the farmers. I cannot find that there is the slightest justification for Mr. Brookhart's statement, nor do I believe that he can justify it. On the contrary, I believe that the total of agricultural deposits is less than 25 per cent. of all deposits, and possibly not much over 20 per cent.

For this same inquiry a very careful investigation was made, county by county, for over 3,000 counties of the United States, dividing them according to the value of their annual products, as "agricultural," "semi-agricultural," and "industrial." If the product was 80% or more from the farms, that country was reckoned as agricultural; if only 50 to 80 per cent., as semi-agricultural; and if less than 50 per cent., as industrial.

This investigation showed that, of the total deposits of the 9,700 banks in the Federal Reserve System, the banks in the 432 non-agricultural or "industrial" counties had 74 per cent.; the banks in the 344 semi-agricultural counties had 8 per cent.; and the banks in the 2,266 agricultural counties held only 18 per cent. of the total deposits.

Of course some portion of the deposits in the banks in the semi-agricultural and non-agricultural counties was derived from the farms. But, on the other hand, a very large part of the deposits in the counties reckoned as "agricultural" was derived from the millers, shippers and merchants in the small towns in these counties, and not from the farmers. Therefore, I think we have good reason for thinking that the total farming deposits in all the banks of the United States does not represent much over 20 per cent. of the total, and nothing like Mr. Brookhart's "50 per cent."

(10) One reason for thinking that this is an outside figure as to farm deposits is that the income of the farmer probably appears not to amount to as much as 20 per cent. of the total income of the people of the country. This is the result arrived at in a very careful investigation extending over more than a year, conducted by the National Bureau of Economic Research, under the direction

of Prof. Wesley C. Mitchell. Including as income the value of all that was consumed by the farmer of his own product, and reckoning also his rent, this inquiry obtained the following percentages for the farms, of the total income of the people of the country.

Percentages of national income contributed by
Agriculture

1915	17.6 per cent.
1916	15.9 " "
1917	18.0 " "
1918	21.0 " "
1909-1918 Average	17.4 " "

This is by far the most careful inquiry that has ever been made into the distribution of income in the United States, and until more adequate data is available must rank as authoritative. We know that the farmer is not typically an accumulator of savings in banks, as is evident by the small amount of savings bank deposits in the typical agricultural states. As a rule, when the farmer gets any money he makes improvements on his property or buys more land. He does not put his money into banks. I believe, therefore, that Mr. Brookhart's widely quoted statement before the Agricultural Committee was a very serious error.

(11) Finally, as to the idea that the farmer does not get his share of the available bank credit. There is practically no way of determining what is the exact amount loaned to the farmers or on farm products by the banks. But we can make an estimate.

To begin with, the Census for 1920 gives the total mortgage debt of farms operated by their owners as 4 billions; and as this is about two-thirds of the total number, this means about 6 billions in all. How much of this was loaned directly by the banks we do not know; but we do know that one of the main causes of the tight condition of thousands of banks throughout the West was the fact that they had loaded up with farm mortgages.

If now, as here estimated, anything like 25 per cent. of all bank deposits came from the farmers, then it is probable that a good deal more than 25 per cent. of all bank loans was made to farmers and stock raisers because we know that in general borrowing farmers do not keep balances at the banks, as ordinary merchants do, but expect to draw out every nickle of it. But if it was only one-fourth, this would mean at least 6 billions and probably more.

This then would indicate a total debt of something like 10 to 12 billions, or an average of nearly $2,000 for every farm in the whole United States, counting as a farm anything over three acres, or a tract producing $250 worth of produce.

Now. We know that in 1920, of the farms owned by their operators, more than one-half were free from mortgage debt, and that the average debt per farm mortgaged was $3,350. If anything like this was true of all farms, then the total of loans per borrowing farm would rise to above $4,000 per farm at the lowest, possibly above $5,000.

Taking the value of the farms, not at the inflated prices of January 1, 1920, but at their more normal value in 1910, the average per farm, including all improvements and livestock, was only $6,444. I should very much like to know if, in your judgment, there is any limit to a safe and reasonable amount of credit on farms; and if so, whether that safe limit exceeds half or two-thirds of the normal value of the farms, with all their improvements ~~to~~ livestock, ~~and~~ and

loans on product ?

(12) Next as to "the overwhelming, the indecent haste" of the banks "to get back to normal conditions." If this does not mean a reduction of bank loans, then it seems to me it must mean little.

Now, in the 7,700 National banks outside of the 400 banks in the so-called reserve cities, the total reduction in their loans from the peak which came, not early in 1920, but in September or October, to last December 31, was a little over 10 per cent. As the average reduction for the banks in the larger cities was above 20 per cent., then we may suppose that, on the average, the reduction in loans in the 20,000 banks, mostly small banks, which are outside of the Federal Reserve System, would be much less than in the country national banks, that is to say, much less than 10 per cent., and possibly not much more than 7 or 8 per cent.

Bearing in mind that, in the five years preceding, the increase in banks loans in all the United States had been about 115 per cent., does it seem to you that a reduction of loans in the agricultural districts, ranging from 7 to 10 per cent., from the high point of inflation reached in 1920 is to be regarded as "overwhelming" or "indecent" haste, or any kind of haste, or calculated to work any serious hardship to the farmer, if general conditions had been sound?

To the great wave of credit inflation which followed 1915 and culminated in 1920, was there to be no check whatever? Were we to try to get along with these dangerously extended credits; and was there to be no attempt whatever to get back to fairly safe and sound banking conditions?

(13) Next; it is I think a mistake to believe that the city banker dominates or controls the country banker. So far from this, it is fair to say that there is a good deal of very natural antagonism between the two. And certainly, in the last year or two, there never was a more complete disregard of the city banker's advice to the country banker, to exercise a certain degree of caution in his loans.

It is, of course, true that loans on farm products are rather long-time loans, and the commercial banker does not dare to tie up too much of his funds in these loans. Nevertheless, the writer can certify to the following instance, which shows very vividly what can be done with energy and brains:

In one of the rural counties of New Jersey, twenty years ago, a boy of seventeen went in with his father on a small truck farm, which did not yield even enough to give the boy a technical education such as he desired. A few years later the boy bought out his father and has since conducted the business single-handed. A year ago, that is, 1920, the gross sales from this single farm were over half a million of dollars. This represents a single man's achievements, aided by the banks. For years, from the time he showed that the stuff was in him, he has had from each of the four banks in the little county town, five miles away, the legal limit of loans to a single customer. In addition to this, the banks have aided him to obtain the outside capital which he has needed to build up his business.

So great has been his success that his company is now laying out an orchard which will entail an investment of something like three-quarters of a million dollars. This is one instance of direct aid to farmers by banks, and I venture to say that it could be multiplied, naturally on a smaller scale, not by thousands but by hundreds of thousands of cases.

The business I have cited has steadily earned, according to a Price-Waterhouse examination, an average of around 18 per cent. a year on the invested capital. Is there any business in the United States, farming or otherwise, that could not get from the banks all the funds it could safely use if it was showing an average profit of 18 per cent. a year? Yet this particular business had not a single advantage of any kind that was not open almost to any farm in the United States; nothing in the way of capital, or superior education, or location, or richness of land, or any single thing that could be named. The difference was energy and brains, and nothing more.

(14) In justice to the farmer. Like yourself I was born and brought up in Iowa, and in the rural counties. I have given a great deal of thought to the farmer's problems; I know his difficulties; and I do not believe that it is in the direction of legislation or of arbitrary control of banking that his condition can be improved. I cannot see that it would be helped in the least by a farm member of the Federal Reserve Board, nor farm members of the boards of directors of every Federal Reserve Bank, for the simple reason that neither the members of the Federal Reserve Board nor the directors of any Federal Reserve Bank have any kind of control whatever over the disposition of the funds of the Member Banks.

They cannot determine whether a banker in Des Moines, or Ida County, shall make a loan to John Jones or to William Brown, to a merchant, or to a farmer.

They cannot determine any proportion or ratio of loans to one interest or another.

They have not even the remotest kind of control over the making of such loans, and I believe that it would be impossible to pass any kind of law by Congress which would give them any such control.

If there were any attempt towards such a thing, the banks would withdraw from membership in the Federal Reserve System, because they could never believe that their own particular business could be directed as safely from Washington or from New York and Chicago and Minneapolis as by their own board of directors and their own managers.

Is it not well to recall that the banks are voluntary associations of individuals, and there is no law which can compel a man to invest in bank stock? And, in turn, the Federal Reserve Banks are voluntary corporations owned by the Member Banks; and there is no law which can compel any bank to become a member of the Federal Reserve System. To the capital of these Federal Reserve Banks the Government does not contribute a dollar; nor has Congress the right or power to control or distribute the funds deposited with them in any way.

(15) Lastly, is it not well to remember that bank credit, like money, is capital only to a very slender degree. You can create bank credit by fiat, or by inflation, just as you can create money by fiat; billions and billions

of it, if you wish; just as has been done in Russia and in Germany and in Poland and in other countries where it is worth practically nothing. But you cannot create capital by law, either bank capital or farm capital or any other kind of capital. Nor, I believe, can you ever directly control the investment of capital by law or by governmental decree, or direct its use to one industry or another. Every attempt in history, of this sort, has invariably met with disaster.

That is why, I think, the Stable Money League, as a part of its credo, wished to set its face against any kind of attempt at class interference or dictation in our banking system. I believe it is sound economics and sound sense, and that if it cannot stand boldly on such a platform it had better go out of existence.

Using the word in its widest sense, the aggregate ability to produce and distribute goods, the material progress of this country depends solely upon the increase of capital, not of credit.

In the long run no one is more deeply interested in a sound financial and banking system in this country than the farmer, and therefore I believe that, in the long run, no one could be more injured by the kind of agitation that is now rife in Washington and elsewhere. I hope very much that the Farm Loan Banks may grow into a useful and secure part of this system. But this is naturally a matter of slow growth.

So far from the farmer having suffered in recent years from a lack of credit, it is my personal belief that it was excessive credit, alike to the farmer and to every other industry, that had as much to do with the present situation as any one thing.

Please believe me, with very high regard,

New York, March 20, 1922.

OMS-2 150M-9-20

FEDERAL RESERVE BANK OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE MESSENGER SECTION

TIME ______ A. M. P. M.   DATE 2/27/22

TO Gov. Strong.   DEPARTMENT DIVISION SECTION

RECEIVED FEB 23 11 43 AM '22

INCOMING MAIL DIV. FEDERAL RESERVE BANK

REMARKS Please note a first installment

FROM CJ   DEPARTMENT DIVISION SECTION

N. B. USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.
TO INSURE PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

OF NEW YORK

OFFICE CORRESPONDENCE

DATE Feb. 27, 1922

TO Governor Strong

SUBJECT: Literature for Chairman Anderson

FROM Mr. Snyder

The article in the Bank of Commerce Monthly, by Dr. Chandler, dealt quite extensively with the current disorder of the exchanges, and so did the two brief bits of comment in our Monthly Review. Likewise, the two charts sent to Mr. Anderson brought the principal exchanges up to date, and the chart on sterling exchange and purchasing parity, copy of which I attach herewith, seems to me as interesting and as fundamental as anything that has yet been printed.

So much of what has currently been written on the subject seems to me so confused and so misleading, as, for example, the recent pamphlet of Dr. B. M. Anderson, that I hesitate about sending it. Is not a little clear thinking worth much more than a great mass that is unclear, and is it not the persistent iteration of ungrounded assertion that is at the root of most of the trouble?

The articles by Prof. Cassel were in The Economic Journal in 1918-'19, and he can get that just as well from the Congressional Library.

Our copy of the Cunliffe Report and Dr. Cannan's edition of the Bullion Report, under the title of "The Paper Pound," is being sent you Mr. Ander herewith; also Prof. Cassel's memorandum to the Brussels Conference, which has a brief discussion of his theory.

OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 28, 1922

TO

SUBJECT: Stable Money League

FROM Mr. Snyder

With reference to the good that might come from the establishment of the Stable Money League on a firm foundation with a backing of some of the best minds in the country, I should like very much if you would note carefully the composition of the Research Committee as at present constituted.

The idea was to form a committee of rather diverse points of view (and without the slightest reference to Prof. Fisher's particular plan), of economists and others who are deeply interested in the problem of stabilization. This committee has grown, by nomination of chosen members, from a group of four appointed last spring, to the following:

W. T. Foster, Director of the New Pollock Foundation for Economic Research, Newton, Mass.

David Friday, Professor of Economics, University of Michigan, President-elect of Michigan Agricultural College

E. W. Kemmerer, Professor of Economics, Princeton University

W. C. Mitchell, Director of the National Bureau of Economic Research, New York

W. M. Persons, of the Harvard Committee of Economic Research and Editor of the Review of Economic Statistics

John E. Rovensky, President of the National Bank of Commerce

Carl Snyder

H. Parker Willis, Director of the Bureau of Analysis and Research, Federal Reserve Board

Allyn A. Young, Professor of Economics, Harvard University

I should add that no one who has been asked so far has declined to serve on this committee; and it is planned to keep it as homogeneous as possible and as a practical working committee.

OFFICE CORRESPONDENCE

DATE February 28, 1922

TO Governor Strong

SUBJECT: Deflation to date

FROM Mr. Snyder

The report of the Comptroller of the Currency, just received, gives some interesting material as to the decline of loans and rediscounts in the national banks.

From Sept 6. to Dec. 31, 1921. Total loans, including the amount of rediscounts with the Federal Reserve Banks, but not including investments, declined 176 millions, or about 1½ per cent. In the 49 national banks of the central reserve cities there was an increase in loans and rediscounts of 14 millions. In the other reserve cities there was a decrease of 97 millions, and in the 7,700 country banks a decrease of 93 millions.

The decline from the peak in 1920 in these same items compares with the 800 Reporting Member Banks as follows:

Banks	Percentage of Decline
Reporting Member Banks	18.4
National Banks (all)	16.4
In Central Reserve Cities	22.1
In Reserve Cities	21.0
Country Banks	10.1

Could the rate of decline in the 7700 country national banks be taken as an indication of the average amount of liquidation in the 20,000 non-member banks?

MISC. 4.1-100M-6-2

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 28, 1922

TO Governor Strong

SUBJECT: Literature for Chairman Anderson

FROM Mr. Snyder

By an oversight the memorandum sent you yesterday, regarding literature for Chairman Anderson, said that the Cunliffe Report, the Bullion Report and the Cassel memoranda were being sent you herewith.

This was an error of transcription which escaped my eye. The three documents were sent directly to Chairman Anderson.

Would it be of any interest to Mr. A. that I should send him two of the memoranda on the exchange question which I sent you last August and September, at about the time of the visit of Governor Norman?

Copy of note to Chm. Anderson attached.

OK: Keep Mr. A. in mind for new staff

FEDERAL RESERVE BANK
OF NEW YORK

-FFICE CORRESPONDENCE

DATE February 2 1922

Governor Strong

SUBJECT: Literature for Mr. Sydney

ROM Mr. Snyder

Anderson

As you requested, we have sent to Chairman Anderson the Cunliffe Report and the Bullion Report of 1810. I am wondering if you would care to forward to him the following, which touches on a side of this general question which we have not very much considered. And I am wondering whether, if we are to form a really just polity, these considerations ought not to have some weight.

The Cunliffe Report, like the Bullion Report of 1810, represents rather what might be called financial London's view of the case, and presents the extreme determination to bring back the English pound to its old-time parity with gold.

No doubt there are very strong and forceful arguments for this view, but it is fair to say that this is the type of argument which appeals more strongly to bankers and financiers and bond holders than, for example, to those whose views are more swayed by general social and political considerations.

Generally speaking the bulk of the English war debt was contracted at a level of prices when the English pound was worth in gold about one-half its former or legal parity. So to contract the currency as to valorize this enormous war debt in gold is virtually to make one pound worth two. That is to say, one billion pounds worth two billions. There are a great many socially-minded people who consider that this is ethically wrong and that to impose such a burden upon the tax-payers would be a social and political injustice.

You get an extreme instance of the same thing in the case of the French, Italian, German, Polish and other war debts, which hardly anyone considers it now possible to be, or that they ought to be, valorized at t[illegible] ancient parity.

The usual parallel adduced is the English policy in and followi[illegible] the Napoleonic wars. It is again fair to say that the conditions were quite radically different. First, the wars lasted a long time, and th[illegible] debt was slowly contracted at varying levels, so that the degree of co[illegible] traction required was nothing like so great as would be needful to rep[illegible] the same operation now.

Further, English trade at that time had not become the coloss[illegible] affair it is now, nor was the country's business so deeply affected the[illegible] by fluctuations in the exchanges.

Nevertheless, there are many serious students who believe t[illegible] the contraction policy of the Bullion Report was ruinous to English t[illegible] and brought a needless hardship to her people. And it is the view of

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 28, 1922

TO Governor Strong

SUBJECT: Literature for Mr. Sydney Anderson

FROM Mr. Snyder

minds that in a greatly accentuated degree this will be the effect of the policy of the Cunliffe Committee, if it is carried out.

I recall these matters because the question is so often discussed purely in terms of money and change, and not in terms of social welfare. It is true that we followed much the same policy after our Civil War, but there were other and very weighty arguments for such a policy which do not exist in the same degree now. For example, you know that, up to and even a little while before the Civil War, State credit was still at a rather low level and that, practically, repudiation was often attempted and in some cases partially carried out.

The result of this was still felt when the Civil War came on and the integrity of the Union was still in doubt. Virtually speaking, even after the Civil War it was a vital thing to the people of the United States to establish clearly and unequivocally that they would pay their public debts. The case is very different now. In former days our debts were largely to foreign holders. We have practically none such now. And moreover here, as in England, the question is not one of repudiation, as was very strongly urged after the Civil War, but simply of a just valorization of the war debt in terms of goods.

It is fair to add that we did not have then a highly developed series of indices of the value of gold and of money in the form of price indices, as we have now; and the general relations of money and prices were not very clearly understood.

In this latter regard I think economics has made a very great advance in the last ten or twenty years, and that all our financial and monetary policies will be materially weakened if we ignore this new knowledge. If this knowledge still belonged only to what Sir Charles Addis contemptuously calls the "claustral" economist, it might be safe even though it were not wise. But our working men and farmers and multitudes of the population have learned in the late war to think in terms of index figures. They measure the value of their wages very accurately, and the means for this measurement are published frequently in the daily papers and in innumerable articles.

For these reasons it does not seem to many that we ought to follow now policies which were perhaps permissible and, in the case of our Civil War, from some points of view justifiable, fifty or a hundred year ago. An enlightened statesmanship ought to have made some advance in th period.

M-9-20

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 28, 1922

TO Governor Strong

SUBJECT: Deflation to date

FROM Mr. Snyder

The report of the Comptroller of the Currency, just received, gives some interesting material as to the decline of loans and rediscounts in the national banks.

From Sept. 6 to Dec. 31, 1921, total loans, including the amount of rediscounts with the Federal Reserve Banks, but not including investments, declined 176 millions, or about 1½ per cent. In the 49 national banks of the central reserve cities there was an increase in loans and rediscounts of 14 millions. In the other reserve cities there was a decrease of 97 millions, and in the 7,700 country banks a decrease of 93 millions.

The decline from the peak in 1920 in these same items compares with the 800 Reporting Member Banks as follows:

Banks	Percentage of Decline
Reporting Member Banks	18.4
National Banks (all)	16.4
In Central Reserve Cities	22.1
In Reserve Cities	21.0
Country Banks	10.1

Could the rate of decline in the 7,700 country national banks be taken as an indication of the average amount of liquidation in the 20,000 non-member banks?