

INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

A. M.
P. M.

DATE

Jan 9 - 1924

Mr Snyder

DEPARTMENT
DIVISION
SECTION

MARKS

Very Confidential

FROM

Governor Strong

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

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OFFICE CORRESPONDENCE

DATE Jan. 9, 1924. 192TO Mr. Jay . (Copy to Mr. Snyder)

SUBJECT: _____

FROM Governor StrongVERY CONFIDENTIAL

I have just been asked by a member of a committee of management of a very important organization in this country whether I would prepare a suggestion for a plank to go into the Republican platform for this year's Presidential election, which would state the attitude of the Republican Party towards the Federal Reserve System.

All that need be said is a brief word of commendation of the System and something about keeping politics out of it. Now as to the commendation, it seems to me that the basis of it would be the facts in regard to gold imports, the volume of credit, and prices, - in other words, notwithstanding the continuous flood of gold, credit has continued ample but stable, and the fluctuation of prices is gradually being minimized. It should be very brief indeed and nothing like a popular appeal, but a bare cold statement of facts which would express the fact that the industry and the commerce and the agriculture of the country depends upon the protective and stabilizing functions of the System. As to politics in the System, I would like to see the Republican Party pledge itself to discourage any attempt at political control, management, or influence over the Federal Reserve Board or any of the Federal Reserve Banks or their branches, and state it in an uncompromising way.

How would you like to take a shot at preparing something along those two lines?

BS.MM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Jan. 30, 1924. 1924TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

Every now and then some one suggests to me that with one-half of the world's monetary gold in our hands, and more of it coming all the time, the day may arrive when the nations of the world will adopt some other standard than gold and we will be left with a handsome collection of dead sea fruit.

I have never regarded that as a menace to our position for a variety of reasons, which are hardly worth enumerating; but I have spent a good deal of time wondering what sort of a development can be expected in the future as a result of this situation, and I am gradually coming to a conclusion which it might be well worth while figuring on.

Personally believing as I do that the tradition of gold is too deep-rooted in the human mind to be uprooted by acts of governments, it now looks to me as though we must expect this gold to be used as the basis for world banking and finance. In other words, there will be a gradual but constant drift to this country of banking transactions upon a gold standard basis just because we stand ready always to pay gold. Investments will be made, preferably in the gold standard country. Loans will be placed in the gold standard country. In course of time a greater proportion of commercial credits will be opened with us. The country will occupy the position of the world's "reserve" banker, and this situation will continue indefinitely. Even though efforts are made to restore foreign currencies to stability, it will likely be predicated upon some application of the gold exchange standard, and there will be gradually erected in this country a structure of credit of foreign origin far beyond anything which we have previously anticipated. Expressing it differently: instead of being able to return this gold to the countries from which it came so that they may have a domestic gold

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Jan. 30, 1924. 1924TO Mr. Snyder

SUBJECT: _____

FR Governor Strong

-2-

standard, we will hold it as a reserve for a world gold exchange standard, we being the custodian and reserve agent.

I hear stories from many quarters of the extent to which foreign capital is being invested in this country. It is simply another manifestation of the *development* I have described. It contains possibility of peril in two respects: (1) that inflation will be forced upon us by our being forced into the position of banking for the rest of the world; and (2) that once our gold reserve is pretty well engaged in that respect, when the gold movement does start it will be a little more troublesome to finance.

How does this all strike you?

BS.MM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Jan. 30, 1924. 192TO Mr. Snyder

SUBJECT: _____

FR Governor Strong

-2-

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I hear stories from many quarters of the extent to which foreign capital is being invested in this country. It is simply another manifestation of the *development* I have described. It contains possibility of peril in two respects: (1) that inflation will be forced upon us by our being forced into the position of banking for the rest of the world; and (2) that once our gold reserve is pretty well engaged in that respect, when the gold movement does start it will be a little more troublesome to finance.

How does this all strike you?

BS.MM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Jan. 31, 1924. 192 TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

Referring to your memorandum attached about the Bok plan, I am really giving it a good deal of thought and can't say that I am wholly for the plan, and my general reluctance to write about things of this sort, leads me to refrain from voting. How do you feel about it?

BS MM

att.

BOMD

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Feb. 2, 1924. 192 TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

After further consideration I have decided to vote in favor of the Bok plan. My objection to it is that the movement for the adoption of some such plan should follow the adoption of a formula for dealing with the debts, and I will wager a ginger cookie or a little red apple that experience hereafter will disclose that my fears about any plan proving abortive without the debt question out of the way, are well grounded.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Feb. 4, 1924. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Keynes' "managed" currency is hardly distinguishable from a gold exchange currency. He must realize this, and I have no fault to find with his proposal of a "managed" currency, but a great deal of complaint for his defective and rather selfish reasoning when he talks about our demonetizing gold and locking it up in Washington. He must think we are indeed very stupid people. If we are going to permit this gold, which does its initial damage the minute it arrives here, to do further damage by permitting it to become the basis of a great inflation, he and others of his stripe are ^{Consciously, of} unconsciously looking to this country to indulge in a great inflation for their benefit. We are not going to do it if it can be helped and if they would be sensible enough to get their own houses in order and manage their own damn currency in a sensible, civilized fashion, they would shortly be able to come over here and get the gold they need to present a respectable monetary face to the world. I am thoroughly tired and impatient of the ravings of these inflationists who want us to play the part of cat's paw and pull their chestnuts out of the fire when they haven't the courage to do it themselves.

BS.MM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Feb. 4, 1924 192 TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

Your memorandum attached refers as mine did to the possible development of the gold exchange standard. It has already developed automatically and in due course will be developed formally and more explicitly as the situation evolves, but in the meantime the thing for us to consider is what the effect will be upon our own credit structure. I think it is safe to say that it will involve the opening of credits in this country through loans, bond issues, and other credit operations of that character, which ^{credit} will be held here at the command of foreign governments and foreign banks of issue, and naturally will form the basis of some expansion of our loan and deposit accounts. Just how it will be worked out in detail is difficult, in fact impossible to forecast. I am not looking so much to the development of commercial credits similar to those which London has traditionally granted to the world, as I am to these more strictly financial and monetary credits, and unless I am mistaken, if arrangements are patched up between Germany and France as the result of the work of the Dawes committee, we will gradually see this development get into full swing.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE Feb. 5, 1924 192

To Mr. Snyder

SUBJECT: *Indications of the Stock Market*

FR Governor Strong

I partly concur in the last paragraph but not wholly. A big stock exchange movement could not possibly be brought about these days by a few manipulators. I do think, however, that a big price movement can be sustained for some period of time - greater or less according to conditions - by general sentiment, which may not be based upon actual conditions but upon conditions which are assumed to be the case and are nevertheless not always accurate. It will take more time for discussion than I can give it just now, but we can talk it over when I get back from Washington.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE Feb. 28, 1924 192

Mr. Snyder

SUBJECT:

FROM Governor Strong

Currency and Prices in France

The 100 per cent. quantity theory falls down in reconciling the following facts about French currency with some theories about currency and credit:

1. No considerable increase in ^{French} ~~German~~ currency.
2. A depreciation in its exchange value by 50%.
3. A price level around ^{now} 470 - about 130 points below the 1920 level, which theoretically should be somewhere around 800 or 900.

BS.MM
att.

no - around 300 to 400!
(on the face of the figures for 1913-'14)

Jan. 7, 1924.

DATE _____ 192

OFFICE CORRESPONDENCE

TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

One of my farmer friends in Iowa has written me the attached letter, and I would like, if possible, to get some literature on taxation to send him. It seems to me it should be some rather elementary discussion of tax exempt securities and of the respective advantages and disadvantages of direct and indirect taxes.

BS.MM

Att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Feb. 28, 1924. 192

To Mr. Snyder

SUBJECT:

FROM Governor Strong

It seems to me you were giving an ~~an~~ ^{Extreme} interpretation of the article in the Times, which I read. Of course, to state that the war cost Germany nothing is an absurdity, but on the other hand I understand the situation in Germany now to be somewhat as follows, and here is where so much misunderstanding of the situation arises.

The Government of Germany has repaid its funded debt held by the public through the instrumentality of the Reichsbank, where it borrowed money and secured issues of currencies, and paid for its public obligations, ^{by} simply transferring the debt from one class of citizens to another. The public which formerly owned interest bearing bonds, now owns worthless paper money. German States and private individuals and corporations took advantage of the flood of paper money so as to repay what they owed in a depreciated currency, with the effect that the entire public and private debt of Germany, - that of the State owing to its citizens and that of debtor classes owing to creditor classes - has all been paid off and is now represented by depreciated currency, back of which is a Government debt owing to the Reichsbank. As the paper has become absolutely worthless and will be repudiated as obligations of the State, it simply means that the State has furnished the instrumentality or machinery for a gigantic swindle upon creditor classes. But the debt has not been extinguished in any way, shape or manner. - It has been vastly increased as a matter of bookkeeping. The implication of the Times' article impressed me as simply a clumsy way of stating that all debts having been metamorphosed, the last step in this swindle will be accomplished when the German Government repudiates the currency, which it certainly will do by one or another method. The debt which Germany has not extinguished, however, is the debt to foreign governments and citizens growing out of the war - presumably aggregating

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Feb. 28, 1924. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

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\$33 billions - under the terms of the London agreement. At one stroke the German Government wipes out domestic indebtedness of all classes and substitute^{may} for it the Treaty debts, the result being the accomplishment of a swindle at home and the recognition of just debts abroad. On the whole, if Germany really pays France and her other creditors, I don't know but what this form of taxation of the German people is just as good as any other, considering the nation as a whole, - but what gets my goat is the fact that the operation has permitted a small class of German industrialists to accumulate vast properties without paying any considerable consideration for them, and not only have creditor classes been wiped out, but actual owners of property have had their investments in it filched from them not for the benefit of Germany's just creditors, but for the benefit of a gang who have been industrially engaged in conducting for their private benefit one of the most gigantic swindles of the ages. That is the way I feel about it.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Mar. 3, 1924. 1924To Mr. Snyder
Governor Strong
FROM _____

SUBJECT: _____

I have just read your memorandum on the fall of the franc. The cost of living curve seems to extend only to about June of 1923, whereas the purchasing power of the currency and the exchange curves extend down to the very end of 1923. I think if you had up-to-date figures on the cost of living in France you would find the curve to be something close to what I have indicated on your chart. There has been a very sharp increase, as I understand it, within the last few months. If this is true, I am not sure just how you justify the statement that there can be no sustained rise in the general level of prices and wages without a corresponding expansion of currency and credit, because that seems to be exactly what has happened in France—that they have experienced a constant decline in the purchasing power of their currency and in the existing value of the currency from the middle of 1922 - that is, for 20 months now - that they appear to have had an increase in living costs from the low point which extends from the latter quarter of 1922 to the present date, which would be a period of about 15 months. Does not your chart refute your statement completely unless the word "sustain"^{ed} means that you are considering five or ten year periods rather than periods of a year or thereabouts? It can all be explained very readily if one takes into account the enormous hoarding of currency by the French peasants which always means that potentially the effect of circulation in France can be enormously increased without the Bank of France increasing the outstanding notes at all. That is probably just what has happened - that this currency is coming out of hoardings and going into foreign investments in one form or another, and it is becoming more dynamic than it was because it is again getting into circulation. I should have added this

of course. It is the equivalent to an actual currency increase. C.S.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Mar. 3, 1924 192To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

Is not the suggestion which I made in regard to the depreciation of the franc pretty well confirmed by the chart attached to your memorandum? Of course, the gold price level and world prices - so-called - are still subject to better definition and understanding than is now the case, but I have a feeling that all commodities which are largely imported and exported adjust to world prices, that is to say, in a measure to a gold basis, very promptly, as the international values of currency fluctuate; that other adjustments take place much more slowly, but that nevertheless any very sharp advance or decline in exchange does result in price readjustments toward world levels, subject to all the influences of increasing or decreasing domestic cost of production. Again we come to the interesting problem of which is cause and which is effect.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE Mar. 4, 1924. 192

To Mr. Snyder

SUBJECT:

FROM

Governor Strong

Attached is Secretary Hughes' acknowledgment of the data regarding Japan, which I recently sent him, and which you will gather proved to be of real interest. Please return the letter.

I would like very much to have you and the others in the department keep in mind that any important information respecting the Japanese situation should come to me, as I like to keep Secretary Hughes posted, and have undertaken to do so from time to time.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 8, 1924. 192To Mr. Snyder

SUBJECT: _____

Governor Strong

FROM _____

The attached articles in the The Nation and The Athenaeum are
certainly most interesting. I wish our folks could write as intelligently.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE Mar. 4, 1924. 192

TO Mr. Snyder

SUBJECT: So-called "Orderly Marketing"

FROM Governor Strong

This is a good article and should get wide circulation. There is just one possibility of a flaw in the reasoning and that is associating primary market receipts with prices. It would come nearer to a true exhibition of the relation if one could get at the rate of shipment from the farms as distinguished from the rate of receipt, and would be still more accurate if one could get at the rate of sale by the farmers and its relation to price in the primary markets.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE Mar. 4, 1924. 192

TO Mr. Snyder
FROM Governor Strong

SUBJECT: _____

As Mr. Tucker seems satisfied with the results to date, why stir the matter up any further. If, on the other hand, we have offered to make further inquiry, I suppose we must do so.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Mar. 4, 1924. 192To Mr. Snyder
Governor Strong
FROM _____

SUBJECT: _____

My answer to your last memo on French exchange is that nobody has any way of estimating what is the effective and what is the hoarded circulation in France, and my guess is that the hoarded circulation is an immense sum - far beyond what anybody has ever realized.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 5, 1924 192To Mr. Snyder
FROM Governor Strong

SUBJECT: _____

I am not sure whether it will yet be worth while to take the trouble to prepare figures to show what could be accomplished by revision of the classification of the reserve and central reserve cities. Probably a great deal could be accomplished, although it ^{would} need to be done in a most judicious way with the mind of the public prepared in advance so as to meet the storm of protest from banks located in the affected cities.

You and some of your men might be considering the matter and if you think it is worth while to get up figures, do so not with the painstaking accuracy of the statistician but with the general methods of an architect preparing a sketch, so that we could get a rough idea before putting in a lot of work on accurate figures. Of course, the way to do it would be to see how much reserves would have to be increased progressively through the creation of more central reserve cities which would increase the required reserve of member banks in those cities from 10 to 13 per cent., and by increasing the number of reserve cities which would increase their required reserves from 7 to 10 per cent. Obviously the cities to be classified as central reserve cities would be Boston, Philadelphia, Cleveland, Kansas City, St. Louis and San Francisco. The classification of such cities as Richmond, Atlanta, Minneapolis and Dallas as central reserve cities would appear to be rather fantastic.

Bear in mind in this connection that the change could be made very gradually indeed and still have the required effect. It could be illustrated, for example, by the case of Boston with the following hypothetical figures:

If the Boston member banks are now required to carry \$100,000,000 of reserve deposits with the Boston bank, the increase would presumably require them to carry \$130,000,000, and increase the discounts which the Boston banks

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 5, 1924 1924TO Mr. Snyder
FROM Governor Strong

SUBJECT: _____

2

would have to make at the Reserve Bank by just that sum. This would restore the discount account through the Reserve System which would make the discount rate so much more effective and would obviate the need for pursuing an investment policy which may ultimately have the effect of actually increasing the volume of credit. Borrowings by member banks to make good reserves which become deficient by the increase in reserve requirements would not have the effect of increasing the volume of credit. On the contrary it would tend to reduce the volume of credit because they would try and call loans and let paper run off so as to accumulate the required reserve without borrowing. To carry out any such program might, of course, necessitate at least a temporary reduction in our discount rates during the period of readjustment.

I don't want you and Burgess to think that we are entirely without imagination and resources in dealing with these matters because there are other things that still may be done without asking legislation and some of them would be indeed most effective.

BS.MM

OFFICE CORRESPONDENCE

DATE March 8, 1924. 192

Mr. Snyder

SUBJECT: _____

FR Governor Strong

I think you must be careful in jumping at conclusions about the French situation. The French Government borrows for its needs in excess of revenues on Treasury bills which are payable in three, six, nine and twelve months time. These are sold all over France, and when they approach maturity - say within 90 days - they are largely purchased by the large commercial banks. The Bank of France either by law or as a matter of policy stands ready to discount bills secured by treasury bills when they are within 90 days of maturity for any customer of the bank and practically without limit. If the Bank of France should decline to do so, the whole French fiscal system would collapse. Now if you will look at the last statement of the Bank of France, you will observe that there was no increase in Government borrowings, but there was an increase of about one billion francs in circulation, and in the last two weeks an increase of something like twelve or thirteen in advances and discounts. This coincident with the collapse in exchange. The inference is simple and will explain what has transpired:

Holders of French treasury bills are getting uneasy. They are selling those which are within 90 days of maturity to the Bank of France or borrowing on them as the case may be, taking currency and using the currency to buy things. The things they buy may be commodities, real estate, household furniture, or any old thing--but undoubtedly a considerable part of what they buy has been foreign currencies. The decline in the franc exhibits that clearly, and you will note that sterling has been pretty steady during this period, which would indicate

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 8, 1924. 1924

Mr. Snyder

SUBJECT: _____

Governor Strong

FROM _____

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that they are buying both sterling and dollars. I am told by private observers in France (who are just now in this country, but who have been recently in France) that living costs are really going up at a tremendous rate. One lady told me that but a very few months ago—or the end of last year and early this year—it cost her 8,000 francs per month to run her menage, and today it costs her 12,000 francs per month.

I personally don't think the dam has busted—but think it is leaking very badly.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 8, 1924.

To Mr. Snyder

SUBJECT:

FROM Governor Strong

In a general way I am opposed to any program for publicity or anything of that sort in connection with the opening of our new building. I think the best plan is for us to go in and say nothing about it or as little as possible. When we are in the building and everything is operating satisfactorily, I think we can invite bankers in groups simply to inspect the building. The reasons for this I will explain later.

BS.MM
att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 8, 1924. 192

Mr. Snyder

SUBJECT: _____

Governor Strong

FROM _____

About the A. B. A. meeting in Chicago. I am very definitely of the opinion that the exhibit in Chicago is the job of the Federal Reserve Bank of Chicago, and that we should not but in in any way, shape or manner. If the Federal Reserve Bank of Chicago asks us for suggestions, let us make suggestions, but do no more than that. We simply cannot afford to continue to create the impression that the Federal Reserve Bank of New York is the whole System. It is resented in Chicago now and this would simply add to the resentment if we dealt with the Bankers Association in connection with an exhibit given in their home city.

BS.MMM

att.

OFFICE CORRESPONDENCE

DATE March 8, 1924. 192

Mr. Snyder

SUBJECT:

Governor Strong

FROM

With this I am handing you a copy of the so-called McNary-Haugen bill, together with some documents left with me by Mr. John R. Mitchell bearing on it. I have promised Mr. Mitchell that if an analysis of the plan justifies my doing so I would write to President Coolidge about it. I am going to ask you and Mr. Burgess to make a study of it from the economic point of view and let me have your conclusions in a memorandum in such form that I can send it with my letter in case I write the President.

(1) The farmers are facing a real calamity and need help just as much as the Russians did two years ago—and they are Americans and not Bolsheviks.

(2) I have no illusions in regard to special aid by the Government, etc., etc. Wall Street bankers are just as ready to take Government aid as anybody else when they get into trouble.

(3) As to privilege and class legislation generally, we have a good deal of it on the books now—the tariff is the outstanding example, and we may have a bonus bill that will outshine everything of that character.

I would be glad to have something from you as soon as convenient, together with these papers which I will read in connection with your memorandum.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 13, 1924. 192

Mr. Snyder

SUBJECT: _____

Governor Strong

FROM _____

Referring to your memorandum attached, I think the less we monkey with the reserves of the Reserve Banks either by amendment to the law or change in our accounting the better off we will be. Changes in our reserve do not alter the facts. We should have the courage and capacity to control the amount of money we loan one way or another and if we fail in that regard no change in reserve provisions will amount to anything. The weak point is the reserves of the commercial banks and trust companies. They are constantly being enlarged by gold accessions and until the gold flood stops we are almost helpless to offset its inflationary effect. Those measures which we have taken to date seem to have been effective in part, but how long we can continue successful remains to be seen.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE March 13, 1924. 192

Mr. Snyder

SUBJECT:

Governor Strong

FROM

In regard to our surplus gold dealt with in the attached memorandum, the treatment of currency in circulation other than Federal reserve notes may prove to be one of the most fruitful sources of relief, but I rather incline to agree with the views expressed last night - that the redemption of National bank notes is a more effective method of accomplishing this than any other. I would rather see the greenbacks retired, but it is a dangerous subject to attack. There are some \$148 millions of Government bonds maturing next year, and the refunding of these into a new bond without any circulation privilege would automatically require banks which had this issue of bonds pledged as collateral for bank notes to deposit lawful money in order to retire the bank notes. Deposit of the lawful money would by so much impair their reserves and to that extent require them to borrow from us and in that way give us a further hold on the situation. That is the simplest thing to do and it is a procedure in connection with which the Reserve System's operation would be so indirect as not to involve us in any discussion about contracting the currency. But even that involves dangers. It is in my mind to get up a little program on this matter as soon as we can get around to it, possibly for discussion in Washington next May.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 18, 1924 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

FROM

[Foster]

With this I am handing you a document which apparently came from Dr. Foster preliminary to its publication in the April Harvard Business Review. I have only had time to read it through hastily and will be unable to write Foster about it, but possibly you will care to do so.

The particular impressions left in my mind are that he sticks to the idea that an index number can be a sole guide of policy for the Federal Reserve System, that it is possible for the men who run the Federal Reserve System to manage the whole price problem, and that as it is possible for them to do it they should undertake to do it avowedly and publicly announce it. Now I am satisfied that it is along this path that most serious trouble will develop for us. Foster's thesis takes no account of other influences upon prices than credit. It takes no account of the stupidity and selfishness of various classes of people in thinking that the only prices that count are those in which they are interested. It takes no account of the unending warfare between the producing and consuming classes - the former for advancing prices and the latter for falling prices. And possibly most serious of all, it assumes that it is possible for the management of the Federal Reserve System at all times and under all conditions to be divinely wise, magnificently courageous, and inhumanly intelligent. He assigns to a small body of men a responsibility which has never been assumed by any body of men in economic history, and where its assumption has been attempted it has always failed, - that is to say, the responsibility to so manage economic affairs that they can control prices. I am against it and against his thesis root and branch. We must do what we can to prevent credit developments getting out of hand and causing run-away

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 18 1924 192TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

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prices and exhaust our ingenuity to find ways and means of meeting the present menace due to gold imports. But to calmly assume responsibility for prices just as though we made prices or controlled the price level - we must never do. I am satisfied that a good many of the men at our dinner the other night are wholly in accord with my views about that.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 19, 1924. 192

To Mr. Snyder

SUBJECT:

FROM

Governor Strong

Cheney's charts are not surprising, it seems to me, in view of what we know about the movement of wages. Clearly these figures disclose that wages rushed up with the general advance in the price level to the peak of 1920 when prices fell away from wages, the reduction being but a small fraction of the reduction in the general price level. ^{of the latter} What is a little surprising, however, is that the little boom that we had in 1923 had the effect - at least in the silk industry - of moving wages back to a level higher than the peak of 1920, while the wholesale price level for silk is but little above the low point and even the price of raw silk and of finished silk is not very much above the average level of 1921 - 1922. Certainly for once the wage earner has gotten all that is coming to him.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

T

OFFICE CORRESPONDENCE

DATE March 20, 1924. 192To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

Thank you for the attached. I want to see such figures as are in shape by tomorrow noon showing the actual trend of business.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE March 21, 1924. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

I have decided not to write the President in regard to the McNary-Haugen bill, partly because if he displays an interest in the correspondence I will not be here to follow it up for a while.

So I voided the letter you were good enough to prepare and I am writing Mr. Mitchell as per attached copy.

BS.MM
att.

March 21, 1924.

My dear John:

I have been through the McNary-Haugen bill, read some of the current comment upon it, and have had some studies made in the bank.

Notwithstanding the earnest desire which we all feel in this bank to see some really constructive and helpful measures undertaken for the Northwestern wheat farmer, I cannot believe that the McNary-Haugen bill will accomplish the purpose which we all desire, and I fear that in many particulars, after a lapse of years, it will leave the wheat farmer in a worse situation than he is today. The difficulty with wheat is a price difficulty. We produce a surplus of some 200 million bushels of wheat, which must be marketed abroad, not necessarily in competition with wheat but in competition with the various cereals produced in various parts of the world by methods of farming and a type of labor with which the American farmer cannot compete in cost. Standards of living in the East are too low, and I think that is true of a very large part of Europe as well.

This leaves the American farmer in the position of having a 100 per cent. unprofitable wheat crop because 25 per cent. of his crop, or thereabouts, must be sold in the world's competitive market; whereas everything that he buys is purchased in a market where price levels are unquestionably affected by a fairly high protective tariff. In the face of this situation I cannot escape the conclusion that it is a poor business venture, and in every way a bad project

to encourage the continuance and even the further development of a surplus production which will be a menace to farm stability so long as the world cannot absorb it at prices which justify its production.

Very little consideration seems to have been given to one aspect of this legislation which I believe is fatal irrespective of any other aspect. If the United States Government enters upon a vast program of dumping surplus wheat on the rest of the world and finances such a project, it is bound to bring reprisals in some form or another. The advantage gained for the American farmer may be offset by advantages sought by other countries for their own farmers, and that sort of warfare can continue indefinitely until something breaks.

With some reservation, I think my own suggestion would be that legislation be undertaken - or that a plan be adopted without legislation - by which some such organization as the Federation of Farm Bureaus, (which today covers substantially every agricultural county in the country) will actually make a survey of wheat acreage and exercise a control over the amount of wheat planted during the next few years. Something of that sort is now done in India by the Indian Government itself in order to deal with famine conditions which arise periodically. They conduct an absolute census of acreage and planting and production, which I believe is of a highly scientific character, and an investigation of it might throw some light upon the possibilities of doing the same thing in this country. Undoubtedly, information about it could be obtained from the Indian Office in London.

If a restriction is placed upon the acreage planted, it is probable that a smaller crop fetching higher domestic prices will afford profits to most American wheat growers, where a larger crop say with 200 million bushels surplus will not only produce no profit but in all probability a definite loss. Notwithstanding this, a reduction in wheat acreage would probably necessitate aid to many farmers

March 21, 1924.

in purchasing stock of one kind or another or taking the necessary measures to introduce some diversification adaptable to the soil and climate where they are located. To cover this I should suppose a program along the general lines of the Norbeck bill might well be made to serve the purpose.

Holding these views I think you will agree with me I could not well write to the President any sort of endorsement of the McNary-Haugen bill.

I would prefer that you and Mr. Peck consider this expression of my own views as confidential. We are so far from the scene of these difficulties that such comment as I might make might well be a cause of criticism and feeling which I would be the last one to arouse. I am simply giving you the best views that I can without having made any local investigation on the ground.

Thank you very much for giving me the opportunity to study the matter a bit.

Yours sincerely,

Mr. John R. Mitchell,
Capital National Bank,
St. Paul, Minn.

BS.MM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 16, 1924 1924TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

The attached note from Mr. Basil Miles explains itself. I think you know Mr. Long personally and rather respect his ability and enjoy his articles .

Who do you think might be induced to take him on? Would you suggest the New York Times? Or what suggestion have you?

BS.MM

att.

Strong Snyder

OFFICE CORRESPONDENCE

DATE May 19, 1924.

192

TO Mr. Snyder

SUBJECT:

FROM

Governor Strong

Referring to the attached memorandum, I have about come to the conclusion that there is no virtue in credit operations for aid of the wheat growers. There has been a very large curtailment of exports, I hear, the price is still most unsatisfactory, and I can't help believing that the answer is - reduced production. This might or might not be capable of accomplishment through some scientific plan - say to be conducted by the Farm Bureau Federation.

As to buying bills abroad, there are many very serious objections, as I indicated in a memorandum to Mr. Jay. Let me illustrate just a few of them.

(1) If we buy bills payable in foreign currencies we take all the risk of exchange loss, and on any amount that would be of any aid whatever in an international credit sense possibilities of loss are really enormous. Suppose we had purchased 25,000,000 sterling of bills when the rate was 4.70. At the present time we would stand to lose 35 cents per pound, or say, \$8,000,000. On the other hand, the guaranty against loss on the other side would present equal difficulties to the guarantors, and I do not see how such a credit plan could be worked out except by the intervention of governments and I don't see much likelihood of either the British or American Governments going into a big exchange gamble either independently or joint account.

(2) There are not commercial bills enough abroad that we could buy to enable us to conduct a very large operation, and that is one of the difficulties that we are going to encounter in the future in any attempt to deal with the exchange situation by the use of Federal Reserve funds.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 19, 1924 1924TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

-2-

(3) Buying sterling bills or any foreign bills in the expectation that those purchases will be reflected in additional purchases of wheat or financing of wheat strikes me as being somewhat similar to throwing a handful of chopped meat into the Gulf Stream which as you know is densely populated with the most voracious fish in the world - the big fish would get the meat and the poor little wheat growers would not get a smell of it.

(4) If we attempted any such program for the avowed purpose of assisting the wheat grower, the unfortunate result would be that we would not really assist him any and then they would just curse us some more.

Isn't it a fact that your own doctrine, repeatedly expressed to me, is the correct one? i. e. that we are growing an amount of wheat in excess of our domestic requirements and the surplus must be sold abroad where wheat can be grown cheaper at a profit than here, and in the meantime our farmer pays high prices for everything that he consumes and uses on his farm.

In a broad economic sense I have always been opposed to schemes for restricting or curtailing production. It seems uneconomic, but under present conditions is justified as to wheat, and that is the thing that our wheat grower should do with or without government aid.

BS.MM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 26, 1924. 192

TO Mr. Snyder
Governor Strong
FROM

SUBJECT: Exchange Charts, etc.

1 Will you kindly send me as promptly as possible a statement showing the amount of monetary gold in this country on January 1, 1914. As I recall the figure was about one billion 800 or 900 millions. The amount of the net annual increase in our gold each calendar year, including the amount received this
2 year down to the latest date.

3 I would also like to have charts, if you can show them, giving the fluctuations in the rates of exchange of sterling, francs, lira, Dutch guilders, the Scandinavian currencies, and the Swiss franc, from, say, July 1, 1914 down to date. Then I would like to have a separate chart showing the fluctuations
4 of these same currencies for a period of only a few years which might be described as the normal fluctuation immediately prior to the war. I want to bring out the contrast of exchange fluctuations under the operation of the gold standard with the fluctuations in exchange since gold payment was suspended so as to show graphically the disabilities under which international trade labors with these extreme exchange fluctuations.

5 I also want to have the mathematical formula which Keynes expressed in one of his articles in the Manchester Guardian, or in one of his books, illustrating his theory of the purchasing power parity of currency, and if alongside of that
6, you can give a literal illustration in the case of sterling with a relative general price level of any two countries to bring out the argument I want to
7, make in regard to the disparity in price levels between any two countries having the power to return to gold payment and that price levels require some moderate readjustment before gold payment can safely be undertaken by anyone.

FEDERAL RESERVE BANK
OF NEW YORK

May 26, 1924

OFFICE CORRESPONDENCE

DATE _____ 192

TO Mr. Snyder _____

SUBJECT: _____

FROM Governor Strong _____

2 _____

I hate to have to send a call in such a great hurry but the fact is I should have these for incorporation in a letter, the final draft of which must be ready tomorrow evening for final copying Wednesday morning, to take to Washington Wednesday afternoon. Can you send word to Mr. Beyer on receipt of this whether this can be done. The charts should be in three copies.

BS.MM

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 27, 1924 192

Mr. Snyder

SUBJECT

Gov. Strong's dinner

FROM

Governor Strong

I wrote Professor Bullock immediately in reply to his letter, denying that the meeting at my apartment was called for the purpose of delivering a spanking to anybody, and pointed out that the subject of price control never would have arisen had not Warburg mentioned it when we were about ready to go home.

BS.MM

OFFICE CORRESPONDENCE

DATE May 28, 1924. 192

Mr. Snyder

SUBJECT: _____

TO
Governor Strong

FROM _____

Referring to your memorandum on British and American price levels, I am not satisfied with your reply on this subject. Certainly the price levels in the two countries (I am not speaking of gold prices but of currency prices) must be substantially 11 per cent. apart on such articles as cotton, etc., because they follow the exchange rate so closely. How can our price levels be identical in the two countries when there is a discount of 11 per cent. in the English currency?

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 9, 1924 192

To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

Here is a translation of an interesting article which was handed to Dr. Miller by the Belgium Ambassador.

att.

*Noted +
to files*

THE DOLLAR AND THE POUND.

(From the Echo de la Bourse, Paris, May 30, 1924)

Ever since the war, as the initiated know, a sort of silent warfare has been going on between the two leading monetary types, the dollar and the pound. Recent events have made this struggle apparent to the eyes of the general public. This is a serious question which should be elucidated as much as possible, for through the incidence of its repercussions it may seriously affect the restoration of Europe and the payment of the reparations. Let us attempt, therefore, to indicate under what aspects this question presents itself at the present moment.

People when concerned nowadays about the level of foreign exchanges generally ask "How is the pound?", and it is only in the second place and not always that they add "and the dollar?". This introductory remark is made to bring out the point that the pound enjoys a standing which, in practice, if not in the minds of thinking people, overshadows that of the dollar, whereas logically the dollar should attract attention first, since it is the true standard in money matters, whereas the pound convertible only in theory, is not truly gold money.

The special interest which attaches to the pound and causes umbrage to the dollar arises from the fact that England continues to enjoy the traditional function of the broker and banker of the world, although it has lost since the war the effective financial supremacy necessary for the exercise of this function. It is the United States that, by reason of well known circumstances, has become the great possessor of gold. Naturally it is her ambition to draw from this situation all possible profit, which, however, in her opinion Great Britain pockets at present without rendering equivalent service.

Europe, generally speaking, continues to calculate in terms of pounds when settling her international accounts. In the opinion of our trans-Atlantic friends this habit should be changed. The dollar should take its "authentic" place in business and remove from the first place the usurping pound. This argument, it

is evident, is not an academic controversy but a "business" proposition.

Last week, as noted in our "Notes and Reflections" the Advisory Council to the Federal Reserve Board, the great institution which centralizes the American banks of issue, issued a pronouncement of which, upon careful reading, we give the following leading portions:

"Unless America finds ways and means to permit her excessive banking strength to benefit other countries, particularly those striving to bring their house in order, the dollar cannot maintain its position as a world standard of exchange, and foreign countries - and even American banking and commerce - will, once more, in a larger degree become dependent upon and tributary to the pound sterling. The Council, therefore, recommends to the Federal Reserve Board to cooperate in every possible manner in the execution of the Dawes plan, and when the new German bank shall have been established the Federal Reserve Board should take all necessary steps in order to facilitate all rediscounts in America of properly protected gold bills."

The announcement adds that the Dawes plan provides for a gold basis for the notes issued by the future German bank, but leaves the door open for the adoption of sterling as a basis.

"But", continues the Council, "it is obvious that, if the new German bank is placed on a sterling basis, the world must prepare itself to remain on a ~~sterling~~ basis of exchange instability for a prolonged period, the end of which cannot be foreseen, while the adoption of the gold, that is dollar basis would accelerate the return to world wide stability. Because of its importance the council deems it its duty to point out this alternative with all possible emphasis. It is not an American problem but one that touches the future of all the world. If there is any reason to assume that success of the Dawes plan may be the means of putting an end to Europe's sufferings and decline, it is a unique opportunity and duty for the United States to lend a helpful hand to the ~~best~~ utmost of its ability."

In recommending to the Federal Reserve Board the rediscount of German bills the Council concludes as follows:

"Measures of this character not only tend to bring our gold hoard into active and healthy use, but by encouraging other countries to trade in terms of dollars they facilitate the direct sale in dollars of our own products, instead of making foreign countries and ourselves dependent in this respect upon Great Britain's acting as broker and banker, as naturally she would, where the pound sterling would govern as an exclusive basis of commerce and trade."

* * * *

By reading a little between the lines and bearing in mind what we said in the opening one can grasp the true meaning of the announcement. However, let us translate it, so that our readers might better understand the matter, into less diplomatic language:

"Our banking power, the Americans think, is actually the foremost in the world. This is not without its inconvenience, mainly because all countries with depreciated currencies are in a position to bring into play against us very annoying industrial and commercial competition. It is therefore only fair that we should seek to avail ourselves of the advantages of a position which is detrimental to us from other points of view. These advantages, for the most part, are seized by Great Britain, who has contrived to maintain the prestige which it enjoyed before the war and to which essentially she is no longer entitled. It becomes therefore our task to prove to the world that there is no good reason why it should remain attached to the pound, and that its sympathies ought henceforth to be turned to the dollar."

How is such a result to be attained? The answer is very simple. It behooves Americans to make use of their "excessive banking strength" to benefit countries which are on the up-grade road, ^{of recovery.} And a country

helped by the dollar will evidently not fail to accord to the dollar its most distinguished consideration; for to generously oblige people is always an excellent means of entering into business relations with them. (How can we, for example, not help feeling real sympathy for the dollar ever since it has rushed to the assistance of the franc against the bear speculators.)

In connection with the execution of the Dawes plan and the creation of a new German bank of issue the Americans evidently think that now, if ever, the time has come, to undertake on a sort of "philanthropic business" basis the intervention which is to give to the dollar its ultimate and all-redeeming consecration. Accordingly they announce that they are ready to make a great financial effort toward solving the question of reparations,--of which the creation of a German bank of issue is part--provided however (this is, of course, merely implied and not stated explicitly) that the dollar and not the pound sterling shall serve as the basis of all calculations, transactions, and transfers, which the undertaking may require. "If you wish us to put an end to the sufferings and decline of Europe", our trans-Atlantic friends say, "make us your bankers", and this advice seems altogether justified.

There is only this little difficulty, namely the Dawes report foresees that at the time of the inception of the German bank of issue "the situation will temporarily not allow of the application of the rule of convertibility". It therefore suggests that "a currency shall be created which shall be kept stable in relation to gold and, as soon as conditions permit, be placed on a convertible basis, if at the time of the inception of the Bank, the situation may be temporarily unpropitious for the application of this rule." This means, that in place of the dollar it may become necessary for Germany and her sponsors to substitute at the beginning the pound sterling. And such action, if we are to judge by the announcement of the Federal Advisory Council, may give umbrage to America.

* * * * *

It will be seen at once, where this leads us to. At present we have not yet passed beyond the stage of preparing for the loan of 800 million marks, provided for by the experts. This loan is possible only if the Americans take a large portion of it. This loan will have to be used to finance the reparations in kind and also to establish the new German bank of issue. If, in accord with the bank's by-laws, the pound is preferred to the dollar, - that is to say, let us repeat it, if we, in Europe, continue to regard England as the sole banker of the world, - will not the United States show some coolness towards the financial operations necessary for the liquidation of the reparation?

This is a very important question. In our opinion the claims of the dollar are not exaggerated. On the contrary they seem to us quite legitimate. In business a person that renders service is entitled to some benefit; the claims which the United States present for its help "to the utmost of its ability" - (what a beautiful promise!) contain nothing "usurious", to use an up-to-date expression. These claims however trespass upon the traditional profits which Great Britain has come to regard as rightfully hers and to cut them off may prove quite a delicate operation for those who may be called upon to do it.---

Let us therefore follow with care the further manifestations of rivalry between the dollar and the pound. This rivalry may cause us some worry, but it may also prove of service to us, if we only "play the game right".

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 26, 1924. 192

Mr. Snyder

SUBJECT:

FROM

Benj. Strong

Please make an appointment through Mr. Beyer. I would be glad to have a chat with you.

The basis of any reply that I would make verbally to inquiries such as Mr. Webber's is always the same -- The Federal Reserve System does not make prices; neither does anyone else!

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 1, 1924 1924TO Mr. Snyder

SUBJECT: _____

FROM _____

Governor Strong

My other memorandum in regard to your department really replies to the one you sent me on the subject of new investigations.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE July 1, 1924 192

TO Mr. Snyder
Governor Strong
FROM

SUBJECT:

Replying to your memorandum about the expenses of your department, I am not sure, of course, what Mr. Jay has said to you about it, and besides that I have never felt that it was a direct responsibility of mine to keep an eye on them. On the other hand, I think you already know just about what was stated to me in Washington, which however you will easily appreciate is confidential. I think the impression is that we have the best department of research that has so far been established. More important than that, the view was expressed to me that it was used more by the officers not only as an aid to the discussion and solution of the various bank problems, but as a practical working department of the bank. There is an impression, however, that our studies are too much directed along the line of price movements and not enough on banking and finance. Possibly your own point of view has been to look further into the future with regard to the longer cycles and not to consider enough the day to day or month to month problems of actual management. My own belief is that a more elaborate study of the New York money market and of the inter-district movement of funds would prove to be of great benefit to the management of the bank, and possibly some economy can be introduced which will permit us to develop this work without any added expense by somewhat reducing the work along the lines of price investigations and business reports.

I think if the department addressed its attention first to a study of economy in operating expenses, which is imposed upon us by the condition of our earnings, and then towards special studies of money market and credit movements, it would meet all of the objections or questions which have been raised about the department. I can assure you that there is nothing personal whatever suggested by the statements made to me. I believe that your associates in Washington have

great respect for your work and that criticism was intended to be helpful and

OFFICE CORRESPONDENCE

DATE July 2, 1924. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Replying to your memorandum on sterling and P. P. P. As you know, I have been a skeptic as to some features of this theory ever since Professor Cassel enunciated it. Now let me express in my amateurish way just the way this problem appears to me.

Changes in the general price level are too remote and indirect in effect upon the exchange to justify ^{expecting} that the course of exchange will coincide with the course of relative general price levels. On the other hand, there are commodities whose prices probably correspond in any two countries with the exchange rate. Let me illustrate: Suppose you took a list of 10 or 20 commodities which conform to the following specifications:

(a) That they were ^{actively} traded in between the two countries - England and the United States.

(b) That there are organized markets where quotations are actually made and where, if possible, the goods are closely graded in quality.

(c) That the volume of trade in those commodities between the two countries is sufficient to justify the belief that the price reaction caused by exchange rates is immediate.

Now the goods which I have in mind which conform to these specifications are such as cotton, wheat, copper, some meats like lard, bacon, etc., zinc and lead, rubber, pig iron, coal, possibly some standard grades of fabrics like cotton (64 squares), lumber, sugar, etc., etc. By taking these prices, working out a weighted index based upon the volume of the trade in them, and comparing the course of these prices in the two countries with the course of the exchange, it strikes me that one would come as close to getting an exposition of the purchasing power parity as is possible. On the other hand, there is this difficulty -

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 2, 1924. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

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that those are goods which have a world market and consequently may fluctuate in prices over a fairly erratic course compared to strictly domestic prices of domestic goods which are not internationally dealt in, which prices as we all realize are more subject to the influence of credit conditions, inflation and deflation, interest rates, etc., than are those goods internationally dealt in. Were I undertaking an examination of this subject, I would start from the elementary beginning, such as I have outlined above, and see where it lands us.

Let me have your own views before putting in too much work on this.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE July 11, 1924 192

To Mr. Snyder
Governor Strong
FROM _____

SUBJECT: _____

Thank you for your memorandum in regard to the cost of our indexes of trade, production, etc. Of course, the statement which Dr. Stewart made to me was no more than a guess, but I am glad that you have straightened him out as to the costs. They tell me that the new line of work is under way and I would like, at your convenience, to have a little talk with you about it - possibly early next week if we can arrange a convenient time.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE July 14, 1924. 192

To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

I have read Dr. Schacht's remarks attached, and of course he leaves the impression that he is a pretty sound man to have in charge of the Reichsbank.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 14, 1924 192

TO Mr. Snyder

SUBJECT: British Prices

FROM Benj. Strong

The chart is very interesting. I am not sure that I agree with you about the better balance of the price levels.

To my mind, one of the very few benefits which we have realized from the war has been a general improvement in the wage level and standard of living by various classes of working men. It looks as though Great Britain was not able to maintain its business activity except under conditions which mean fairly low wages for their working population.

BS.MSB

OFFICE CORRESPONDENCE

DATE July 14, 1924. 192

TO Mr. Snyder

SUBJECT: _____

FROM Benj. Strong

I think we have all expected that there would be a certain number of charts hung in the new building. Just what charts, how they should be hung, and where, cannot be determined without an examination of the rooms of the building where you propose to have them.

I wish you would arrange a time with Mr. Beyer when we can go over to the building and look at a definite proposal. This isn't a question that I can have an opinion about without being on the ground.

BS.MSB

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 14, 1924. 192

To Mr. Snyder

SUBJECT:

FROM

Benj. Strong

I have looked over the charts accompanying your memorandum of July 3, but there are too many of them for me to get a conclusion without more time to study them than I will have for a week or two. But I presume that you sent them to me as evidence of the fact that a lot of work has been done along the line of our discussion. The difficulty is to put this information in such shape that it is of real practical value. That is what I need personally more than anything else just now.

Let me make the following suggestion as a lead:

In 1922 the System made large purchases of Government securities. At the same time we were receiving gold from abroad. Then, at the end of 1922 and early in 1923, we made large sales of securities. In the fall of 1923 we again started purchases, and have now accumulated \$400,000,000. During all of this time, gold has been coming into the country. What effect have these operations had upon the country's credit position, considered statistically; that is to say, on the volume of loans, deposits, etc? What effect may it have had upon interest rates, and what effect does it have upon individual districts, - New York being the most important, probably?

Your memorandum of July 1 bears upon this, and I noticed by the Times on Saturday morning that the National City Bank has a theory to account for the large accounts on deposit in the New York City banks. Is it a fact that gold imports, and possibly our purchases as well, have the effect of inflating bank deposits in New York at once, and that the expansion of loans and deposits does not spread to the rest of the country for some time?

All of these things we should understand better in order to shape our policy. For instance, we might determine to make a larger proportion of our purchases in other districts than in New York, or a larger proportion of our sales in other districts than in New York.

This is a very complicated problem, I know, but one which we should study, and get all the information that is possible to get.

BS.MSB

OFFICE CORRESPONDENCE

DATE July 25, 1924 192

To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

Will you ask Mr. Bendelari if there is any evidence in the literature that he looked over of a fear on the part of Congress that those in the employ of the Federal Government would have too great an influence in political matters and therefore should be excluded from voting at the capitol.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE July 25, 1924

192

TO Mr. Snyder
FROM Governor Strong

SUBJECT: _____

There is no point in guessing about the increase in deposits as there is a way to get at it if the reports are in sufficient detail, and that is to find out what the corresponding assets are so as to account for the increase in liabilities. I would assume that they are principally made up of the following items:

1. Increased loans
2. Increased investments
3. Increased reserves either in vault or on deposit with reserve agents or with the Federal reserve bank.

It makes no difference whether it is one bank or 700 banks. I will undertake to say that every dollar of increase in liabilities can be accounted for by an examination of the various items of assets, and I suggest that that be done if we are to get a satisfactory explanation. It will probably be found that a large amount of the increase on the asset side is shown either in reserves or in "due from banks", in other words, that they are made up of balances carried by interior banks with banks in reserve and central reserve cities, and banks in reserve cities with those in the central reserve cities, while not counting as reserve would appear as an item due from banks.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE Aug. 1, 1924 192To Mr. SnyderSUBJECT: Member Bank DepositsFROM Governor Strong

It is interesting, as you say, The question of why it should be so is more important, however. May it not be because of the concentration of payments at this center in carrying out our investment policy and due to the fact, also, that gold imports are all made to New York and consequently the credit arises with New York institutions in the first instance?

BS.MM

att.

OFFICE CORRESPONDENCE

DATE Aug. 6, 1924 192To Mr. Snyder

SUBJECT: _____

FROM Governor StrongBrokers' Loans

The figures which you have just sent me and which I am returning, impress me as being based upon a plan of calculation which should give us as nearly an accurate estimate of the loan account as by any method that we could adopt.

I hope you feel as I do that this is one of the really important figures which must influence our policy from time to time and that, therefore, we ought to use as accurate a method of estimating as can be devised.

I am sorry to have caused you so much bother.

BS.MM
att.

f.

OFFICE CORRESPONDENCE

DATE Aug. 11, 1924. 192

TO Mr. Snyder

SUBJECT: Price Levels

FROM Governor Strong

As an intellectual speculation in regard to the future, I should say that the best bet would be that in the long run we cannot expect to maintain stable general prices in the face of continued gold imports even though our policy may, by good fortune, be capable of considerable ^{development} beyond what has so far been possible. In a way it was fortunate that we were able to acquire securities at a time when the general price level was declining. Were it advancing with speculative tendencies abroad, we would soon enough discover the embarrassment of our position.

The question now is: What may effect a change of sentiment of such character that people will be in a mood to buy rather than to sell things, to contract ahead rather than from hand to mouth, etc.? That is really the nub of the whole question of prices just now. Around a year ago, I thought that time was coming because I felt that Mellon's tax plan had been received with sufficient enthusiasm to insure its passage, that the bonus bill was killed, and that the European situation was going to have a housecleaning. Mellon's bill failed, the bonus was passed, and the European clean-up was considerably delayed. Now, however, we have a good prospect for a settlement abroad, the bonus bill has been forgotten for the moment, there has been some tax reduction of moment to the country, the crop situation has developed an astonishingly improved outlook for a large section of the farming community, and it may well be that the turn of sentiment will take place after the country gets reassurance as to the outcome of the elections. Of course, that is the one special doubtful factor just now.

I do not regard the figures as to reserves, bank deposits, money rates, etc., as being so important just now as a guide to the future as I do the development of sentiment from time to time and its bearing upon the willingness of

Aug. 11, 1924

DATE _____ 192

OFFICE CORRESPONDENCETO Mr. SnyderSUBJECT: Price Levels

FROM

Governor Strong

2

business men to make commitments. But the index figures are exceedingly illuminating, and to me are convincing that even allowing for errors in judgment which are unescapable, the policy of the Federal Reserve System has been sound and I would not be ashamed to defend it against critics.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 12, 1924 192

Mr. Snyder

SUBJECT:

FROM

Governor Strong

Where is that memorandum you were going to send me about the ventilation and temperature in the new building? I want to take it up right away in case we have some more hot days. ✓

BS.MM

OFFICE CORRESPONDENCE

DATE Aug. 18, 1924. 192To Mr. SnyderSUBJECT: Excess ReservesFr. M. Governor Strong

Does your memorandum of August 15 in regard to excess reserves indicate that you have some doubts in your own mind as to our policy? If so, what has brought about the change of view? \$86 million is about 4 per cent. of the required reserve, and as the reserve would average, say, around 10 per cent. of all deposits, the excess is $\frac{4}{10}$ of 1 per cent. of the deposit liability, and in percentage is not very much.

I have myself in former years, when bank deposits in New York City were but a fraction of what they are now, seen excess reserves of the New York Clearing House banks alone in excess of \$86 million. My recollection is that in the ~~18~~ 90's the excess reserve at one time was in ~~excess of \$100 million~~ *Excess of \$100 million*, and after the panic of 1907, as I recall, the excess reserve of the New York Clearing House banks at one time exceeded \$80 million.

But after all it is the last few bales of cotton that make the price of the whole crop, and I suppose the same applies to credit.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 18, 1924 192To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

I think we should have a talk with Mr. Roberts and endeavor to allay his apprehensions. If you would care to make an appointment for lunch with him for some day this week, I would be glad to go along.

BS.MM

att.

OFFICE CORRESPONDENCE

DATE Aug. 18, 1924 1924To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

✓ Dr. Burgess has been good enough to prepare for me an analysis of the article in the Chase Bank Bulletin which criticized the policy of this bank, and concerning which you had some conversation with Mr. Roberts.

I wish you would read his memorandum attached and return it to me as it is along some such line as this that I propose to have a discussion with Mr. Roberts.

BS:MM
att.

Memor. for Gov. Harding [1920?]

CONSIDERATIONS OF BANK POLICY

In some quarters there has been a disposition to question the wisdom of the latest reduction in the discount rate to a 3 per cent basis. This appears mainly to be upon the grounds that this latest reduction especially has tended to promote extremely low rates of interest, at least in the New York market, and that this is dangerous and unwise.

This appears to arise through a misunderstanding of the functions of the rediscount rate.

Following the worldwide collapse of prices and of trade in 1920 there were many predictions of severe and difficult times. This has proved to be true for most other countries, but in the United States there came, towards the end of 1921, a marked recovery which has not been since seriously interrupted.

We now possess reliable measures of the volume of trade and business conditions, and from these we know definitely just what the position of trade has been. Our new indexes show that trade was back to normal by March of 1922, and has since been below normal only one or two months. In other words, this country, almost alone of any important country, has enjoyed an unusual degree of prosperity for two years and a half. And in marked contrast to the war and post-war periods, we have had also a fairly stable price level.

When in March of 1923, and again in February of this year, the business averages rose rather sharply and then suffered a subsequent decline, there were again multiplied predictions that we were entering upon a serious slump. Especially this year the building boom and motor car production had been going at a high pace, and a considerable reaction would have been not unnatural.

But in June, or July, the decline which, in iron and steel and the cotton trade, and some others, had become quite serious, appears to have been arrested and since then business has been generally on the up grade. Now, in the present year, this bank's rediscount rate was reduced first on May 1, again on June 12, and finally on August 8. Throughout this period interest rates tended to decline up to August, but not since the last reduction of the rediscount rate, notwithstanding that during this period the Reserve Banks' investment holdings have been moderately increased.

The rediscount rate being essentially in the nature of a regulator or governor of the business machine, what, under these conditions, was the clearly indicated policy? If, as so many believed in the spring, the recession in business was to be serious, obviously the discount policy should have been directed towards mitigating this as much as possible. If, on the other hand, as many believed, the opposite danger existed and the steady inflow of gold must inevitably result in another heavy expansion of prices and a consequent boom (such as inevitably attends a rise in prices) it was desirable that the Reserve Banks should be in the best possible position to mitigate this. A low bank rate and a considerable investment holding was clearly the vantage ground.

The business of the rediscount rate is not to stabilize interest rates or maintain high interest rates. In stable interest rates there appears to be no economic advantage whatever; quite the contrary. Their chief social function essentially involves the widest movement.

As the long experience of England has shown, the interest rate is the surest and safest regulator of trade that we possess. Unless this rate can move freely and widely this regulating function is lost. Tendencies to overexpansion will not be restrained by a 5 per cent bank rate or undue apprehension relieved by a

4 per cent. rate. If the rate can move freely between, let us say, 3 and 7 per cent, this influence is correspondingly augmented. If the rate can swing between 2 and 10 per cent, the influence is clearly still stronger.

The Bank of England, the oldest ^{perhaps the} and most ably conducted of all central banks, has never hesitated at these latter ranges. In 1908 and 1909 the Bank of England rate was at $2\frac{1}{2}$ per cent. In 1914, at the opening of the War, it was swiftly raised to 10 per cent.

There are few economists who do not believe that if the rediscount rate in this country could have been raised to 7 per cent, or possibly 8 per cent in 1919, a large part of the subsequent boom and collapse might have been avoided. In the same way a declining discount rate should be the accompaniment of declining trade, unless, indeed, we regard the stability of interest earnings as of greater moment than the stability and prosperity of the nation.

There are many who feel that the tremendous and redundant inflow of gold into this country, amounting now, since August of 1920, to over 1600 millions, is fraught with great peril to our economic stability, and especially to our credit position and price levels. This may well be. But the frequently predicted heavy rise in prices has not yet appeared, nor is there as yet any beginning. This Bank's index of twenty basic commodities, which has shown itself such an excellent forecaster of the larger and more slowly moving indexes, fell last week to 141.3, the lowest point in two years.

It is true that the last six months have seen a quite remarkable expansion in bank deposits, and that the total net deposits of ^{all} ~~the~~ Member Banks of the Federal Reserve System are now more than $3\frac{1}{2}$ billions above the highest point of 1920. And such a rapid expansion is usually the precursor of a corresponding increase of business activity and of rising prices.

But the remarkable fact about this increase in deposits is that about three-fourths of it has been in the form of time deposits and the larger part of this has gone into bank investments rather than into an expansion of bank loans. And experience has shown that there is a quite notable if not radical difference in the effect of such an expansion, as compared with a rapid increase in bank loans to customers, and, as is usually the case, a corresponding increase in demand deposits.

The business of the country is largely carried on by means of demand deposits, and it is the relation of these demand deposits to the volume of business, the ratio between ~~these~~ and the volume of trade, which chiefly determines the general level of prices. The increase in demand deposits in this country in the last two or three years has just about balanced the increase in the volume of trade, and we have had, therefore, a fairly stable general price level, as this Bank's new index of this general price level has so clearly shown.

There have been considerable fluctuations in the averages of commodity prices at wholesale, both up and down, but in such times of perturbation as the last ten years this is a distinctly different thing from the movement of the general level of all prices, including therein wages, rents, retail prices and other elements which make up the total of payments for goods and services.

But if our redundant gold really threatens an overexpansion of bank credit, clearly it is the business of the Reserve Banks to be in the best possible position to meet this. And against any long and slow expansion, as in the twenty years preceding the War, experience clearly shows that neither the bank rate nor the interest rate is any effective counteragent whatever.

On the other hand, if a recession in trade and a decline in bank

37
From the Reserve Banks
 borrowings presents an excellent opportunity to the Reserve Banks for acquiring a sufficient holding of investments, this can become a very potent factor in checking expansion in a time of need. If the larger part of the Member Bank reserves of the country, say a billion and a half, was invested in *short term* Government securities, this would provide a fund that would go far to counteract the effect of even a billion and a half of redundant gold.

Whether this would promote cheap money or speculation in stocks and bonds seems of little consequence. Stock speculations are but a bubble on the broad stream of trade and can never seriously affect trade conditions, as we now have abundant evidence.

Nor do very low interest rates in the New York market necessarily foster credit expansion. After both the panic of '73 and of '93 we had a prolonged period of cheap money, but the credit expansion was long delayed.

But there is yet another phase of the question. The United States have a vital interest in the revival and the stability of world trade. We have equally a selfish interest in getting rid of this billion and a half of redundant gold as *rapidly* quickly as possible. We have no need of it; but the rest of the world has a genuine need for it. For every cent of it we have paid the exact equivalent in goods and services. A billion and a half of dollars is a good deal of money to throw away. If we could help a general return of the nations to the gold standard we should gain both ways.

Experience as well as theory has shown that, in a broad way, the rates of foreign exchange under such conditions as now prevail correspond broadly to the relative positions of the price levels of the different countries. If our price level declines this tends to raise the purchasing value of gold and to lower the value of paper currency; in other words, to make the return to a gold standard very difficult. It is highly to our

interest either to keep our price levels steady, or even that they might somewhat advance. And quite apart from all this, low interest rates here promote foreign borrowings and set the tide of foreign payments in the opposite direction to what it has been, which in turn would greatly assist England and other nations in getting back to a gold basis.

And beyond all these considerations there are others of a more general nature, of social and political significance. There is no question that the high discount rate of 1920 was generally connected in the minds of the farming population and many others with the violent fall in farm prices, greatly stimulating the prejudice against any form of central banking system in this country. Identically this kind of feeling made an end both of the First and Second Banks of the United States. If this prejudice were strong enough it might be sufficient to wipe out all the great gains in banking reform since 1913.

Clearly it ought to be said that if the Federal Reserve Banks can make a high rate of discount they ought equally to be able to make very low rates.

There is yet another consideration, and that is that ~~essentially~~ ^{at times} the rediscount rate is largely determined by the prevailing interest rates and not the determinant of them. ^{Even now} It is open to question whether prevailing money rates would be greatly different at the present moment if there were no Federal Reserve Banks at all. We have had extremely low interest rates in New York in many periods before these banks were created.

*not sufficient
Educational
H.A.*

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 18, 1924 192TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

✓ I see no objection whatever to your giving the lecture course on "The Business Cycle" in the Department of Economics of Columbia University next summer. Of course, the only objection which could be raised would be that the discussion might in some way involve a disclosure of the affairs of the bank, but your own good sense in that respect is sufficient for me, and if there is any doubtful point in your mind on that score, I am sure you will refer it to me.

I think it is a good plan to keep these contacts alive.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 18, 1924 192TO Mr. SnyderSUBJECT: Street LoansFROM Governor Strong

The explanation of the change in proportion between loans for account of correspondent banks and loans for the account of New York reporting banks is a fairly simple one. The New York banks are forced to take these loans over when the call money rate gets so low that there is no profit in lending the money over what is received on a deposit balance. It saves the out of town correspondent a lot of bookkeeping and bother in figuring interest just to call the loan and let the balance remain in its account.

I have no doubt a lot of that has taken place.

BS.MM

att.

OMS-2-30M-1-24

FEDERAL RESERVE BANK
OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TIME _____ A. M.
P. M. DATE _____

Mr. Snyder

DEPARTMENT
DIVISION
SECTION

REMARKS Please note, ~~pass on~~, and send any
suggestions, to be ready for Mr. Jay on his return.

FROM W. R. Burgess

DEPARTMENT
DIVISION
SECTION

COPY

MISC. 3. 1-75M-9-23

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 25, 1924.

TO Messrs. Jay, Case, Kenzel and Sailer

SUBJECT: Governors' Conference

FROM Benj. Strong

The Federal Reserve Board has called the fall meeting of the Governors and Federal Reserve Agents for Monday, November 10, 1924. In order that the conference may be a profitable one, it is necessary to have the programs prepared and submitted to the various Governors well in advance of that date, in order that they may have time to consider and prepare any necessary data in connection with the questions to be presented to the conference.

Will you please, therefore, give to the various departments within your jurisdiction an opportunity to suggest to you any topics which they may wish to have presented for consideration, and submit any topics of substantial importance to Mr. Harrison, who will undertake the preparation of the programs, not later than October 15, 1924.

Please observe the usual custom of submitting each topic separately and in duplicate, stating whether it is intended for consideration at the separate Governors sessions or the joint sessions, and giving a short title for use on the program, followed by a concrete recommendation if action is requested, and by a brief explanation of the point raised if discussion only is desired.

OFFICE CORRESPONDENCE

DATE Sept. 9, 1924 192To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

Owing to Mr. Roberts' illness, I have been unable to see him, and probably will not do so before leaving for the West.

With this I am returning Dr. Burgess' memorandum and think it might be a good plan for you and Burgess at some convenient opportunity, and without emphasizing it too much, to have a talk with Mr. Roberts and confidentially clear up his mind of any doubts which he may have along similar lines.

BS.MM
att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 10, 1924 192TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

The addition to your memorandum in the par clearance suit seems to me quite well worth while for Mr. Baker to consider. Of course, we don't want to direct him too much in the character of his defense of this litigation, and there is a very nice question which will cause some difficulty as to whether any evidence of this character upon which an argument can be based has a proper place in the trial of the case, which of course is confined to the allegations in the bill. I think you and Dr. Burgess had better discuss this with Mr. Baker when he comes to New York on the 20th or thereabouts. I shall be in Colorado then.

As to the charts. It seems to me a pyramid is graphic and will explain to an uneducated person just what transpires, but it will only be complete by the figures of the showing the banks through which these credits pass and accumulate, putting in the actual figures for purpose of illustration and then adding a little description of the process of lending and of the way the deposit is transferred from one bank to another and thereby the reserves transferred in a decreasing quantity until the theoretical limit of expansion is reached, which of course is a logarithm with no end to the calculation. I like the larger chart in pyramid form better than the smaller one, although I see no reason why we should not prepare a variety of them and give Mr. Baker his choice.

This is a situation that is worth all the work that we can put into it.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 15, 1924 192To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

There is no reason for you to be in the dumps about the index or anything else. Don't forget that the educational value gained from a study of past experience must be supplemented by some sort of judgment in its practical application, and the reason why I want the figures along the line of our recent discussion as to credit, is because the first is not complete without the second. To tell you the truth, I think your index will prove to be the most valuable one that we can have for such use as indices serve, far better than an index of wholesale prices or a selected list of sensitive articles or living costs or any other index which fails in comprehensiveness, which ^{show} just one small item in a big picture; and I have always felt that your index is the most comprehensive. If it is at all open to criticism, from my point of view it would be on two grounds: (1) is ^{the} criticism which applies to every weighted index, and that is, as to the judgment with which the weighting is done, and (2) is as to whether the calculation of a trend, in order to find a true normal, is definitely sound. I don't know enough about it to be able to criticize intelligently, but it seems to me there may be a weak spot there.

I should be glad to learn of any new suggestions you and Burgess may have about banking figures, because I do attach considerable importance to work along those lines.

BS.MM

att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 3, 1924 192TO Mr. Snyder

SUBJECT: _____

FROM Benj. Strong.

I have read the attached memorandum and draft letter to Mr. Knox, and this is my reaction:

1. A personal letter to Mr. Knox serves no broad purpose unless he is permitted to circulate it, or to publish it.
2. As this is a Federal Reserve System matter, as distinguished from our own bank, I am unwilling to make a statement for the System on so important a matter at least without some understanding with our Washington associates.
3. This matter is on the program of the Governors Conference for discussion, and my own recommendation is going to be that a statement of our policy be prepared at the earliest possible date and printed in the Bulletin, and that either the statement in full, or an epitome of it, be put on the back page of each of the twelve monthly reviews. If possible, I would like also to see such a statement appear in the journal of the American Bankers Association.

Incidentally, I was delighted to have Colonel Ayres tell me on Friday that while some of his colleagues in Cleveland would not agree with him, he was, personally, very glad that we had accumulated such a large investment account, as he believed it was about the only means available to us during the past year to protect the country against an inflation. Such fellows as he can help us immensely. And so can your friend Chandler, with whom I had a long talk, and a frank one. Likewise, George Roberts, whom I hope to see in a few days.

Does not this same statement apply with equal force to the article which accompanies your letter of September 26, which I assume was written to go

to Colorado and held up on account of my desire to have no mail out there?

FEDERAL RESERVE BANK
OF NEW YORK

f

OFFICE CORRESPONDENCE

DATE November 17, 1924. 192To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

What, if anything, are we able to do in order to get a good line on the amount of "forward" contracting. This is the period when inventories in forward contracts have a very important bearing upon our policy.

I doubt if it can be approached statistically, but if discreet inquiries can be made by our investigators so that this matter can be constantly watched, I think it would be of value and I would like to know the results.

BS.LS

(Copy to Dr. Burgess)

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 18, 1924. 192TO Mr. Snyder

SUBJECT: _____

FROM Governor Strong

I have been invited to address the Army War College on January 22, 1925. I wrote General Ely that my throat did not permit my doing so, but offered to suggest some substitute if he desired me to do so.

His reply is attached. Do you feel that it is worth while for you to undertake this?

Att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 22, 1924.¹⁹²TO Mr. SnyderSUBJECT: Forward Contracting.FROM Governor Strong

I did not have in mind a statistical treatment of forward contracting, but simply such private, unofficial inquiry which would disclose whether the tendency was developing and whether it was considerable or slight, dangerous or harmless, etc.

BS.LS

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 29, 1924TO Messrs. Snyder and Burgess

SUBJECT: _____

FROM Benj. Strong.

Referring to our talk of a program in connection with recent criticism of the policy of the Federal Reserve System, please note the careless analysis on page 2327 of The Chronicle (Nov. 22, 1924) in the middle of the right hand column, where it says:

"since when trade again improves the securities can be sold and the funds released placed at the command of trade" etc.

This merely exhibits the loose jointed way in which this matter has been discussed in the press.

As to the criticisms themselves, I think they fall within three categories:

1. Unremunerated services.

An analysis of this will show that they are all services of the character required in order to give effect to the principles of the Act, and the answer, if one is made, must be an attempt to justify performing necessary services without charge. And that, I fear, is one of the weak joints in our armor.

2. That investments are made in order to produce earnings which are needed to meet the heavy cost of these unremunerated services.

While the Governors of the Federal Reserve Banks have for the past year or two been definitely on record collectively as opposed to investments just for earning purposes, there is, nevertheless, a feeling in the minds of some of the Reserve Banks that they must earn most, if not all, the expenses and the dividend, and here again is a weak joint in our armor. We in New York know that the whole purpose of the operations of the Open Market Committee is credit control and not earnings at all, but an exact and fair picture of the attitude of some of the Reserve Banks would probably be that they have agreed to a policy as to credit which is agreeable to them because it does produce earnings as a sort of by-product of the policy. And the real test of their attitude will come when the time arrives to sell these securities. As this time is approaching, we will soon know more.

3. The General Subject of Policy.

Here we come to a System matter of such moment

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 29, 1924 1924TO Messrs Snyder and Burgess

SUBJECT: _____

-2-

FROM Benj. Strong

or writings lest we invade the field of the Federal Reserve Board and lay ourselves open to the criticism that we are not "playing the game."

From the above you will observe that further reflection leads me to hesitate a bit about going into this matter ourselves and in our own name.

On the eleventh of December a big banquet is being given to Mr. Owen Young. I hear that the applications for seats will result in filling the Waldorf-Astoria banquet room to the roof. I wish you would ask Mr. Jay how he feels about preparing a very brief, conservative statement to use in connection with his address at that banquet, which would deal with Federal Reserve policies somewhat from the European standpoint and along the line of our recent discussions with Anderson et al. This is just a thought based upon my belief that almost anything that Owen Young says just now will be regarded as gospel and coming from the world's greatest financial strategist.

BS.MSB

OFFICE CORRESPONDENCE

DATE December 3, 1924 192To Mr. Snyder

SUBJECT: _____

FROM Benj. Strong

I know Mr. Boies very well. He is sympathetic and a good friend.

We must bear in mind that a meeting of newspaper men bears some resemblance to the strength of a chain, - which is no stronger than its weakest link. A meeting of the character you suggest is limited in freedom of discussion by the limitation imposed by the degree of trustworthiness or untrustworthiness of the least trustworthy person present. I had a talk with Mr. Noyes about it yesterday, while Dr. Stewart was in the bank, and they both agreed with me on this point.

My suggestion is, therefore, that we pick out a very small group of the very best men and most reliable of the newspaper men. My suggestion at the moment would be Boies, Noyes, Woodlock, Schneider, and, of course, we might add Roberts, Chandler and Anderson. I would not think of having Willis and Seibert at such a meeting, and I am not well enough acquainted with the others whom you name to take the responsibility of making any suggestion.

Dr. Stewart would attend such a meeting.

If you and Mr. Jay agree that it would be worth while, I will be glad to have these men dine with me some night, and would submit to your judgment and his the question of whether anyone else should be present.

We must not mix the white sheep and the black sheep; neither should we have a mixed party of newspaper men and business men. If we are going to have a party of business men such as you suggest, they should all be of that type, for the discussion would be of a wholly different character, and, in my opinion, would be subject to limitations which would not apply with the members

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 3, 1924 192TO Mr. Snyder

SUBJECT: _____

FROM Benj. Strong

-2- _____

of the press.

Won't you go over this with Mr. Jay and get his reaction?

BS.MSB

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 3, 1924 192

TO Mr. Snyder

SUBJECT:

FROM Benj. Strong

I cannot answer the two problems you suggest, except that it may be that during the peaks of industrial activity caused by the war, very large sums of surplus earnings were plowed in in all the industrial companies which benefitted by the war activity. This certainly was true in various branches of the steel industry, and possibly others. It was notably not the case both with the railroads and with the public service corporations, which were subject to the very high costs of operation and control of rates. They suffered while industries benefitted. The steel corporation is the outstanding example.

BS.MSB

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 4, 1924. 192

TO Mr. Snyder

SUBJECT:

FROM Governor Strong

Here is a note from Miles. Can you ascertain from our files what the Allied and Colonial debt is to Great Britain?

As to the second question, do you not feel that the maintenance of the arbitrary ratio between the Reichsmark and the Rentenmark was due to the following causes:

1. The steps which were taken to prevent the export of the Rentenmark and its use abroad in settling foreign payments to Germany;
2. To the very high discount rate of the Reichsbank;
3. To the element of convenience, and
4. To the general shortage of all forms of currency for making money payments.

Are there not other points?

Att.
BS.LS

OFFICE CORRESPONDENCE

DATE December 8, 1924 192TO Mr. Snyder

SUBJECT: _____

FROM Benj. Strong

Before I write Miles, are you able to advise me of anything that is known in regard to what, if any, payments are being made by the dominions and colonies on the loans made them by England, or of any payments being made on the loans of the allies? ✓

FEDERAL RESERVE BANK
OF NEW YORK

Snyder^K

OFFICE CORRESPONDENCE

DATE December 22, 1924. 192

RECEIVED

To Mr. Snyder

SUBJECT: _____

FROM Governor Strong

JAN 24 1925

P. J.

FEDERAL RESERVE BANK
OF NEW YORK
JAN 26 9 28 AM '25
FILES DIVISION

The remarks in regard to the American Banker apply equally to the article in the Annalist.

I might suggest that Noyes might be able to help you with the Annalist, if it is worth paying any attention to at all.

Att.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 4, 1924

To Governor Strong

SUBJECT:

FROM Mr. Snyder

"A Tract on Monetary Reform," by J. M. Keynes, will be published here by Harcourt, Brace & Company, on January 17, and we have sent them an order for twelve copies as soon as issued.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 4, 1924To Governor Strong

SUBJECT: _____

FROM Mr. Snyder

Just as recalling a little incident of 1921, you may be interested in a little paragraph on page 4 of the enclosed, and the matter to which it refers.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 8, 1924

To Governor Strong

SUBJECT: Bok Plan

FR Mr. Snyder

I am much interested to know that you purpose to vote on the Bok plan, for, like yourself, I had the same impulse to break a fairly steady procedure in that regard and do the same.

I don't know how you feel about it, but it seems to me that our Senate today was never more misrepresentative of American interests or enlightened public sentiment. With sixty-four of its ninety-six members drawn from the sparsely settled West and South, containing but two-fifths of the population, it is now unrepresentative in fact. It is simply grotesque that a few thousand populations amid the sage brush of Nevada, Arizona, New Mexico, Idaho, and the like should be able to out-vote ten or twenty times the population of New York, Pennsylvania, Ohio, etc.

It seemed to me that the egregious Bok had really hit upon a plan to give voice to the better sentiment of the country and to bring some real pressure to bear upon a dismally dense body of back numbers.

Would there be any objection to at least pass the word around to all the Bank that this is a matter of sufficient interest that everybody ought to say their yea or nay about?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 8, 1924

TO Governor Strong

SUBJECT: Bank Deposits and Prices

FROM Mr. Snyder

I should like especially to have your consideration of the chart of gold stocks, deposits, and the general price level in this morning's Business Summary. It seems to me of rather curious interest.

If we had taken the average of commodity prices at wholesale the spread here shown would, of course, have been still wider.

Does it not give the impression that this spread cannot long continue? And I take it that there is no probability of a great decline in bank deposits.

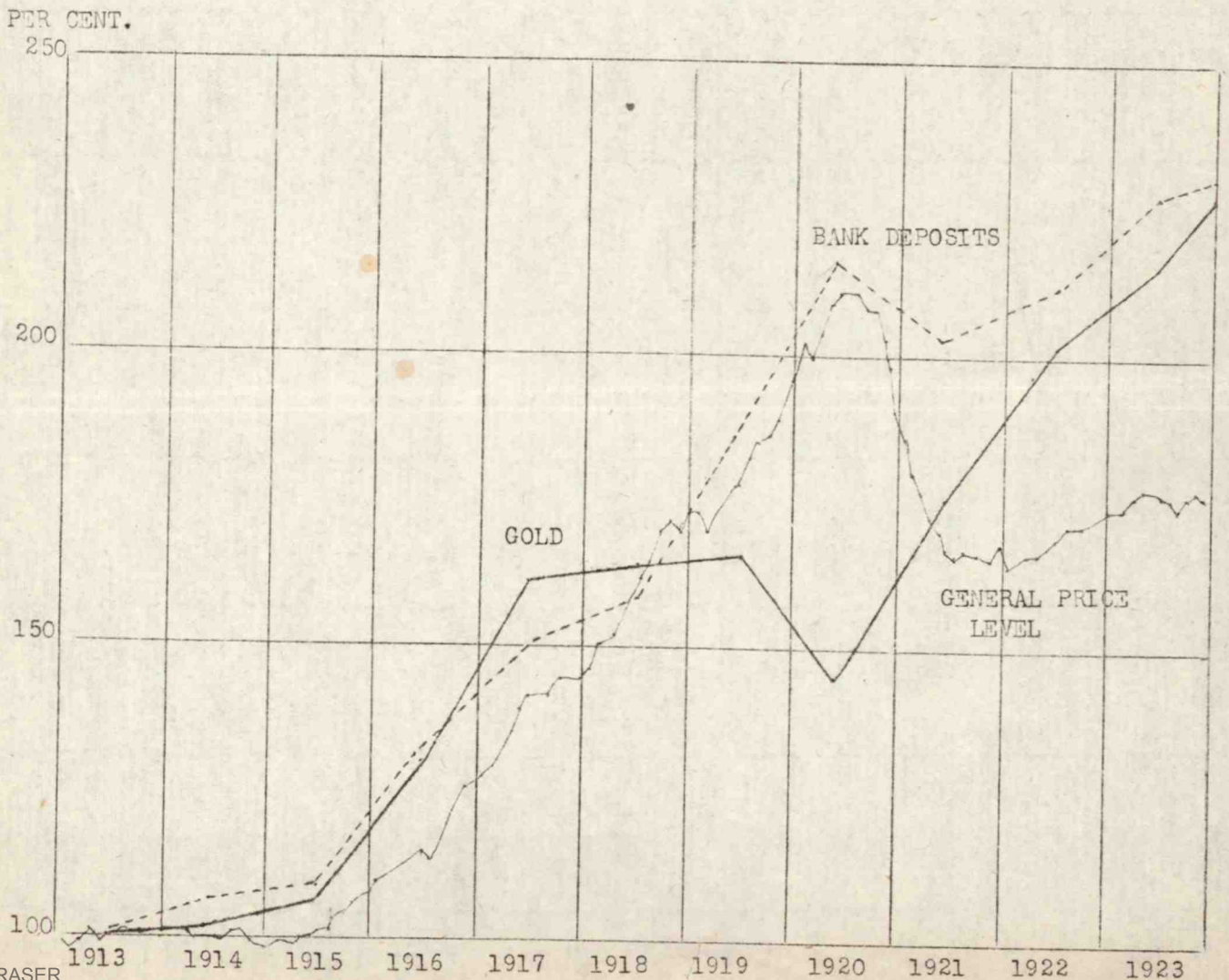
would like to discuss this —

BS.

GOLD STOCKS AND PRICES

The following diagram compares the movement of gold stocks in this country with changes in bank deposits and the general level of prices.

As shown by the diagram, bank deposits and prices rose rapidly following the large gold accretions of 1916 and 1917 and declined following the loss in gold through exports in 1919 and 1920. In the past few years gold stocks have again had a heavy increase, but thus far this has been without corresponding increase in bank deposits or rise in prices.



FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 11, 1924

TO Governor Strong

SUBJECT: F. R. S. Pamphlet

FROM Mr. Snyder

The pamphlet, "Of Service to Banks and Business," is very attractive, very interesting, and very effective.

All the more reason why, since it deserves and probably will have very wide circulation, it should not contain erroneous statements or inaccurate information, as is the case on page 7.

The Harvard "Index of Business," here used, is not, as I think we now know, conclusively, a correct report of the course of business or trade. It is essentially an index of prices merely.

We have found such strong confirmation of our composite index of the Volume of Trade that we may now say confidently that the volume of business and trade in the 1919-'20 boom reached its peak, not as here represented, in the middle of 1920, but a full year earlier.

The Harvard index was so clearly erroneous and so far from the reality, that it had to be radically revised last summer.

As it is, furthermore, based, as I believe, upon an erroneous idea, I do not think that it ought to be used in this book.

Don't take this too hard! Its just a reprint
of charts used in Phila. & issued by the Phila
bank. They may not know how busy
and husky a baby you have born,

B.S.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 11, 1924.

TO Governor Strong

SUBJECT: Letter to Logan.

FROM Mr. Snyder

An admirable exposition, and most important I think is the note which you stress on page 14, that the morale of Germany must be restored.

But, outside of reparations payments, I see practically only one reason why Germany should have adverse trade balances for more than a brief period, and that is simply that her scale of prices was above the levels of her competitors.

Next:

(1) It seems to me that the idea that Germany cannot mobilize the 5 or 6 per cent. of her income that would be required as taxes, to sustain the government on a moderate scale of expenditure, is absurd.

(2) I believe that the German capitalists and banks have ample funds to provide the government with a temporary loan, sufficient to tide it over until the taxes come in.

(3) Therefore, I do not believe that they need any foreign loan, or any further inflation, or to do anything but to get back to sane economics and sane finance.

All the rest of it seems to me pure subterfuge and evasion. And I believe that if you were to spend five weeks of travel and investigation in Germany you would share fully in this view.

Is not the real trouble that the Germans themselves have no faith in the honesty of their own government?

Why should we have any more?

OFFICE CORRESPONDENCE

DATE January 12, 1924.

To ~~Mr. Strong~~ Governor Strong

SUBJECT: Federal Reserve Pamphlet.

FROM ~~Mr. Snyder~~ Mr. Snyder

1833

About that Philadelphia pamphlet:

As I understand it, some 20,000 or 30,000 of these pamphlets have been printed and are to be distributed. They cost 11 cents apiece, and the cost of distribution will not be less, with labor and all, than 4 cents more, - say 15 cents each.

If there are 30,000, this is an expenditure of \$4,500 - enough to make it worth while not to include half-baked and misleading statistics.

On page 22 is another chart which gives the impression that retail trade in 1923 was below, and wholesale trade far below, 1920.

I don't think the Federal Reserve System ought to father such things as this.

*Neither do I. But
it's done.*

BS,

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 28, 1924

To Mr. Jay (Copy for Gov. Strong)

SUBJECT:

From Mr. Snyder

You will note by the enclosed that still another service steps in this morning, with an index practically the same as we have had in this Bank now for the last two or three years.

I especially call your attention to its reference to the index published by the Federal Reserve Board, ^(p. 3) and likewise its use of the word "normal."

Practically speaking, I know of no competent statistical service in this country now which does not make use of the concept, or this word in some form practically the same as our own.

This includes, among others, the Harvard Bureau of Business Research, the American T. & T. Statistical Department, and the Standard Daily Trade Service (whose economic adviser now is Prof. H. J. Davenport, of Cornell University.)

It is pretty discouraging to have this sort of thing happen year after year as it has ever since I came here. And I suppose the next will be an index of the Volume of Trade.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 29, 1924TO Governor Strong

SUBJECT: _____

FROM Mr. Snyder

George Harrison has shown me the kind of an index digest prepared by Mr. Hamlin, of the Board, as to the differences between the Aldrich Monetary Commission Bill and the Federal Reserve Act as passed.

As it stands it does not seem of much use. But it occurs to me that an analysis by parallel paragraphs might be of service to some future historian of the System, the which I might be myself some day.

Do you know if anything of this sort was ever prepared, and if not do you happen to have any extra copies of the original Aldrich Commission Bill and of the Federal Reserve Act as originally passed? Possibly, also, of the original draft of the bill by the Glass Committee, as submitted to Congress?

It happens that Miss Davidson would be free for a few days to do a job of this kind, if we wanted to.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 1, 1924

TO Governor Strong

SUBJECT: The Bok Plan

FROM Mr. Snyder

(1) Isn't some kind of a court better than any kind of vigilance committee and lynch-law sort of mob rule, and isn't the appeal to war always more or less of that emotional type? In other words, isn't any kind of a scheme that will make the countries sit around a table, no matter how senseless the babble they indulge in, better than trusting to the conferences of a lot of cookie pushers in white spats that we call diplomats?

(2) Won't the League of Nations tend to set up some kind of a centre of interest that would be antagonistic to the militaristic political centres; and, therefore,

(3) Isn't it better to vote for the Bok plan and get our folk interested a little than to go with the jingos, the know-nothings, and the blatherskites?

That is my feeling.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 2, 1924

TO Governor Strong

SUBJECT: Outlook for the Gold Standard

FROM Mr. Snyder

(1) I share your view that, as yet at least, there is no serious menace of a general abandonment of the gold standard by all the other nations of the world, leaving us to hold a bagful of four or five billions. And I have the same view that you do, that more or less we are kind of utilizing this gold as a sort of international fund and that, while the external appearance is a great difference from pre-war conditions, the reality of everyday business and banking practice is pretty much the same.

(2) I also believe that the gold tradition, as you call it, is very deep-rooted in the human mind, and that in the present state of public intelligence there is very little likelihood of a general abandonment of the gold standard. But do you not feel that there has been a good deal of real progress in the last six or eight years away from a slavish adherence to the theory of absolute gold control of the price level?

*in the last century,
probably,*

Over long periods, of course, the cost of gold production will average out, so as to control the trend of production, so that, up to the world war, the average of prices has not greatly varied from the average of the preceding century, although I am not too sure about this.

But within the century there were very wide variations and I feel as though Wesley Mitchell put it very well when he said that it was not creditable to our intelligence that we should have been able to devise no better method.

But

(3) /I have a feeling that the "return" will not be to an absolute gold standard, but rather for most nations, at least at first, the establishment of the gold exchange standard, i.e., simply the use of gold for settlement of international balances; in a word, that we shall no longer have a gold currency in the several countries.

Pretty certainly France will not devalue, at anywhere near a feasible figure, and of course a return to the old franc par would be fantastic, with its present load of debt; so France can have no stable exchanges except on a gold exchange standard.

And is it not likely that the same thing is true of Germany, and perhaps, also, for the present, in England?

You have noticed that little Finland is joining the rest of the states, like Czechoslovakia, Austria, etc., in establishing just this scheme, and if things get straightened out in Germany, and they do the same, then I should imagine that almost all the paper money regimes would be changed over to this basis.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 2, 1924

To Governor Strong SUBJECT: Outlook for the Gold Standard

FROM Mr. Snyder 2

(4) But as to the effect of all this on this country, I am more dubious. There has been probably a quite heavy reinvestment of European funds in this country in the last two or three years. But I am wondering if a large part of it did not come from much the same type of people who were accustomed to investing here, and had large investments here before the War.

I don't see much evidence of progress towards making New York the international money centre. Mr. Jay makes the point, and I think it is a good one, that England is habituated to the idea of large capital exports, and we are not. We can still use pretty nearly all the available funds we have in this country.

It is very clear that even such a colossal investment as three and a half billions in a few years could not give us a successful merchant marine. Those things have to grow, of course. They are rarely successful as a measure of force majeure.

Now, I imagine a large part of sterling bills and loans for international trade arise pretty directly from the sources of the trade, and, with our exports rather dwindling than enlarging, I do not see much likelihood that we are going to supplant London.

(5) But I do think that England has been feeling of late the effect of her wildly wobbling sterling rate, and that even cast iron die-hards, like Sir Charles, are beginning to weaken. I talked to Chandler about this, who spent several months over there last fall, and he tells me of some very interesting conversations.

Probably the Keynes group are as extreme in the one direction as the uncompromising back-to-par-ites in the other, and that the compromise will be on something like a gold exchange basis, as I have suggested.

Does this sound reasonable to you?

See attached
which Mr. Case
just sends up.

FEDERAL RESERVE BANK
OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TIME _____ A. M. DATE 2/2/24
P. M.

TO Mr. Carl Snyder DEPARTMENT _____
DIVISION _____
SECTION _____

REMARKS For your information

FROM J. H. Case DEPARTMENT _____
DIVISION _____
SECTION _____

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THE WALL STREET JOURNAL NEWS BULLETINS
ELECTRIC PAGE NEWS TICKER
44 BROAD ST., NEW YORK Telephone One Broad

Saturday, February 2, 1924

No. 21

THE NEW FINANCIAL POLICY OF ENGLAND

BY HERBERT N. CASSON

Written for THE WALL STREET JOURNAL

The first two weeks of the new year began in England with a renewal of the discussion on the gold standard; and it seems now evident that a definite policy will soon be adopted.

The policy suggested by the Cunliffe Committee was abandoned during 1923, because of the industrial depression. Lord Cunliffe's advice was to deflate and return as quickly as possible to the gold standard.

This opinion is still held by many bankers. It is still being defended by Harold Cox and Lord Inchcape and Sir Charles Addis. But it has ceased to be the opinion of the merchants and manufacturers of Great Britain.

The prevalent opinion is now in favor of a stabilization of prices, by means of a managed currency, based partly on gold and partly on the Board of Trade's Index Number of wholesale prices.

No one knows clearly how this can be done, except a few theorists who have complete and elaborate schemes all worked out. But the drift of English opinion is undeniably in this direction.

The central idea of the new policy is that for every rise of 10 points in the cost of living, the bank rate should be raised a half of 1%; and for every fall of 10 points, the bank rate should be lowered a half of 1%.

EXPANSION AND CONTRACTION OF CREDIT

In this way, the expansion and contraction of credit would depend, not on gold reserves, but on the prices of the principal commodities. The aim is to secure a direct relation between prices and the supply of credit.

This plan does not involve the debasing of the currency. It does not mean the free use of the printing press to create an artificial prosperity. It means a regulated currency, but regulated by other commodities as well as gold.

It is now an open secret that the government had adopted this policy and was about to put it in action, when a cabinet minister let the cat out of the bag.

Sir Montague Barlow, the Minister of Labor, who was defeated in the recent election, declared in a public speech that the government was about to try a little inflation.

This announcement at once caused a roar of protest from the daily press. The Daily Mail used the word "inflation" as a club and hammered the government until a

Continued

DOW, JONES & CO.

THE WALL STREET JOURNAL NEWS BULLETINS
ELECTRIC PAGE NEWS TICKER
44 BROAD ST., NEW YORK Telephone One Broad

Saturday, February 2, 1924

No. 22

Continued

general denial was sent out. Since then, nothing has been done, but the increase in the numbers of the unemployed has now brought the question again to the front.

The influences that are at work for a new financial policy are as follows:

McKENNA FOREMOST FIGURE

1. The Federation of British Industries. This great association consists of about 25,000 firms; and it was first to demand that the policy of deflation should be checked. "Keep internal prices level and stop deflation," says this federation.

(2) Mr. Reginald McKenna. As the head of the largest bank in the world and as an ex-chancellor of the exchequer, Mr. McKenna is the foremost figure in British finance; and he is strongly against deflation. He was obliged to modify his views, because of the outcry from the press and the timidity of his fellow-bankers; but he is unquestionably an inflationist, regarding inflation as a remedial measure in the present condition of depression.

(3) Mr. John Haynard Keynes. The views of this emphatic young professor are accepted at par by the Manchester Guardian, and they are discussed in all parts of England.

Keynes was a junior member of the British delegation at Versailles and he was the first one in England to denounce the Versailles Treaty and to maintain that Germany must not be ruined.

He pours out a flood of articles and books on trade and finance and all manner of subjects. He believes in pacifism and birth control and free trade and a managed currency, and he has a large following.

He has recently written a book on "Monetary Reform," in which he attacks the gold standard and advocates a currency based on the Index Number of wholesale prices.

He maintains that the United States has practically demonetized gold and that there will be a slump in the value of gold. Its value is only maintained, he says, by the Federal Reserve Board's "costly policy of burying in Washington what the miners of the Rand have laboriously brought to the surface."

HOW TO STABILIZE PRICES

He insists that even the United States must abandon gold, in order to stabilize her internal prices. Stability should begin at home, says Keynes; and then, by degrees, the nations may reach a point where they can stabilize the exchanges.

These two men, with the powerful help of the Federa-

Continued

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No. 23

Continued

tion of British Industries, have changed English opinion with regard to the gold standard.

Also, the swing away from gold has been accelerated by the slump in sterling. The English people had hoped that the funding of the American debt would lift sterling up to par. The reverse has happened. It has dropped from \$4.68 to \$4.30.

It is now thought that Baldwin made a great mistake in promising to pay in dollars; and this decline in sterling has quite changed English public opinion about the importance of keeping pace with the dollar.

England expected sterling to rise to par and gold to flow back to London. Neither of these expectations has been realized. The English pound has depreciated 8% and the flow of gold to America in 1923 was greater than in 1922.

In a word the new English monetary policy will be based on profit rather than on pride. It will aim, first and foremost at a stabilization of internal prices and a stimulation of trade.

NORTH DAKOTA LIGNITE

MINNEAPOLIS—Production of lignite coal in the North Dakota mines, in 1923, reached the highest figures in the history of the mining industry in the state, according to J. P. Mellon, state mine inspector. Production was 1,435,605 tons, compared with 1,057,823 in 1922; 895,715 in 1921, and 502,028 in 1922. The value of the coal after mining is placed at \$3,742,413. There were 259 lignite coal mines producing in the state. Although the increased production over 1922 was 73.6%, it is estimated that 100,000 tons were mined and not reported.

THE DRAIN OF TAXATION

Out of every \$8 of our national income, \$1 goes for taxes, federal, state and local.

The boy whose living expenses are \$8 a week pays \$1 in taxes, in the form of prices made higher by taxation.

The man who pays out \$24 a week is paying \$3 of taxes, the man expending \$48 pays \$6, and so on. And he pays this, even if he does not own one dollar's worth of taxable property.

He pays it in cost of living and he cannot pass the cost along to anybody else.

COMPARATIVE INCOME TAX TABLES

A. B. Leach & Co. have published and are distributing a set of comparative income tax tables. One table is applicable to any revenue law which may be passed.

of
scribed
of regulati
of producing
every one will
in prices is an ideal very much to
be desired.

Mr. Keynes, however, does not propose to adopt the system advocated by Professor Fisher of varying the amount of gold contents of the dollar. He proposes to separate the note issue altogether from gold, and to allow currency to be created freely in accordance with the expansion of credit which may be required in order to keep prices stable.

PROBLEMS OF SYSTEM.

But, with all respect to the high economic authorities which have proposed to regulate currency and credit in order to keep prices stable, it may be suggested that, as a matter of practical politics, the system is by no means as simple as it appears to be when they put it forward with the persuasive reasoning with which Professor Cassel, Mr. Hawtrey and, above all, Mr. Keynes himself, are so well equipped.

At the same time there was a very considerable expansion in the volume of credit as measured by bank deposits, and yet trade depression continued and the prices of commodities fell steadily

These considerations surely seem to indicate that many other influences besides the volume of money and the price that is paid for the use of it have to be considered before we can attempt to stabilize prices in a "scientific" manner.

And seeing that the gold standard that we used to work under before the war was extremely successful in providing practical stability in prices and almost complete stability in rates of exchange there is surely much to be said for the view that the United States is right in endeavoring to maintain this system in spite of the inconvenience which it entails and that England should ally

HITCH SEEN IN

'SCIENTIFIC' CURRENCY

N. Y. EVE. JOURNAL

Reforms Proposed by Different Economists Present Many Real Difficulties.

(Now that the United States, as the world's foremost holder of gold, has more than one-half of the world's supply, questions relating to the use of the metal are of special concern to Americans. J. M. Keynes, critic of the Versailles Peace Treaty and subsequent arrangements to collect German reparations, in a new book, entitled "A Tract on Monetary Reform," recommends that America and England abandon the gold standard, fearing that the present system will give the United States too large a portion of the world's economic power. Mr. Keynes's scheme is criticised in the following article by Hartley Withers, special London financial correspondent of the New York Evening Journal.—Financial Editor.)

—88

LONDON.

In a former letter, a brief sketch was given of the proposals by which J. M. Keynes, in his recently published "A Tract on Monetary Reform," desires to revolutionize the monetary system of the United States and of England, through the practical demonetization of gold and the erection of a "scientific" currency system, under which the volume of currency and credit shall be deliberately regulated with a view to secure stability of prices.

As I need hardly tell you, this is a subject of which much has been heard lately, especially in your country. Professor Irving Fisher, of Yale University, might be deemed as the pioneer of a system of regulating currency with a view to stability in prices, and I agree that stability

Der, 1922, was accompanied during the last eighteen months of its course by a fall in bank rate of seven per cent to three per cent. Bank deposits in the United Kingdom, which may be roughly taken as a measure of the extent of credit, were just under £2,000,000,000 at the end of 1918 and continued to expand until the end of 1921, when they were over £2,500,000,000, thus ignoring the bidding of bank rate to contract when it went up.

Contraction only happened in 1922, when they came down to £2,360,000, and this was the year during which bank rate came down from five per cent to three per cent, showing that a very considerable fall in the value of money may be accompanied, not by the expansion of credit, which the advocates of scientific stabilization would expect from it, but by a considerable contraction.

And if it be urged that the recent period is quite abnormal and is under the influence of after-war conditions which are never likely to be repeated, we may answer that we have yet another example. During the period from 1890 to 1895 the Bank of England discount rate came down from five per cent to two per cent and stayed there for an abnormally long period.

DEPRESSION CONTINUED

At the present time

are rising and trade that has to be done to check rise in prices and stop the boom is to put up the price that is charged for money, that is to say, to raise the official rate of discount.

Further measures may have to be taken, such as the sale of securities by the Central Bank, in order to increase the rapidity with which the system works. But it may be objected in the first place that sales of securities by the Central Bank may very easily upset the nerves of the Stock Exchange and make it quite impossible to sell, and further that a mere rise in the price that is paid for accommodation to producers and traders cannot be relied upon to check them if they foresee a rise in prices which will certainly bring them profit.

DANGER OF PANIC.

If the price of money is put up high enough and fast enough, it would certainly work ultimately, but it may very easily produce a panic incidentally.

Still, it has to be admitted that as a check on rising prices and a too exuberant trade boom, raising the rate of discount, will at a point, be an efficient weapon, but even so we have to admit the danger that when once it is recognized that the volume of credit and consequent activity of trade are things that can be regulated by Government there is a danger that very strong political pressure may be brought to bear in times of trade optimism against any Government which thought it necessary in the interests of sound finance to check the movement.

On the other side of the proposition—the idea that in times of depression it is possible to raise prices and stimulate trade by lowering the price of money—we have definite historical examples which show that this system cannot be relied upon to work, at least for a very long time. This is more especially the case in England which, owing to its dependence for prosperity on its foreign trade, is especially liable to acute trade depression, owing to causes which are outside its borders, and are altogether beyond its control.

FAILURE OF PLAN.

It was shown in the experience of 1920 and 1921 that the lowering of the price of money altogether failed to raise prices of goods or to expand credit or to stimulate trade. The fall in prices, which terminated in England in September, Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANK
OF NEW YORK

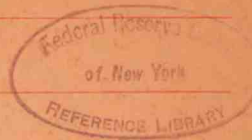
OFFICE CORRESPONDENCE

DATE

Jan. 31 / 24

TO Mr. Snyder

SUBJECT:

FROM Miss Burnett

This is little 2d. of
Hartley Ulmer's
articles on Keynes' book.
Do you want it sent
downstairs?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 5, 1924

To Governor Strong

SUBJECT:

FROM Mr. Snyder

May I ask if you quite fully concur in the last paragraph of this on page 3? I confess I never thought of it before in quite such concrete terms, i.e., that any sustained movement in the stock market now involves a change in value of the total of securities listed amounting to billions of dollars.

Of course the percentage of change is not enormous, but I nevertheless feel extremely dubious about the idea that mere changes of sentiment, and still more in mere market manipulation, can really affect values to such a tremendous extent as is involved in the actual totals.

Confidential
February 4, 1924

THE INDICATIONS OF THE STOCK MARKET

One of the surprises in the compilation of our new index of the Volume of Trade was that in two instances out of three in the last five years this index distinctly preceded the major movement of the stock markets.

In 1919 the high point of our index of trade was reached in July, three months before the peak of prices in industrial stocks. Similarly, in 1921, the low point for the trade index was in January, six months ahead of the low point of the stock market.

In 1923 the index and the stock market reached their high points in the same month.

This decisive evidence completely upsets the theory that the stock market is necessarily a business forecaster. What apparently it does forecast is production of the producer type of goods, the metals, machinery, etc., which in the past have been mistaken as accurate indexes of business activity.

Nevertheless, the stock market, taken broadly, is unquestionably an extremely good index of business confidence; but only recently have we had a really reliable, comprehensive index of stock movements.

Such an index has recently been compiled by the Standard Statistics Company, comprising a total of 202 industrials and 31 rails, weighted according to the number of shares outstanding of each stock, and converted into index numbers so that all the groups are instantly comparable, one with the other, or with the total. It is, in a word, the first scientific index of stock prices which has been compiled.

At the present time the combined index of the 233 industrials and rails stands about five points below the high point of last March and about seven points below the peak of 1919. The recovery from the low of last July to last week was from 91.3 to 103.8. But much more interesting are the different groups.

Of the twenty-seven groups into which the 202 industrial stocks are divided, six groups are now above the previous high point of the last four years: chain stores, electrical equipment companies, food products, mail order houses, telegraph and cable companies, and a group of 18 miscellaneous industrials.

More striking still is the fact that eight of these different groups are now at their record high, i.e., above 1919. These include chain stores, electrical equipment, food products, railroad equipment, telegraph and cable companies, traction, gas and power companies, and the 18 miscellaneous industrials.

In spite of the high average of the industrials a number of groups are still far below the high of last year. These include auto accessories, chemical companies, copper companies, leather and shoe companies, paper companies, textiles, and tires and rubber. These range from 16 to 30 points below last year's peak.

In other words, the list reveals how diversely different interests prosper under changing conditions, and how much of internal movement may be concealed beneath any system of averages.

As to rails it may be noted that after a rise from the low point of 1921, of 71, to a high point in 1922 of 102, they fell off last year to 86 and are now only about 6 points above the low point of the last year.

The present upward movement in stocks has now outlasted a full three months. It seems scarcely possible to imagine a movement so broad and sustained unless the underlying fundamental conditions were sound. If the conclusion cited above is true, that the stock market is never far away from actual business conditions, and even tends rather to lag behind than to forecast, then we should expect to find fairly general improvement in the different lines of business. And this seems to be the case.

One of the most disturbing elements of last year was the heavy over-production of oil. But this situation has been reversed and the present prospect for this year's production is below rather than above the probable consumption. The result has been a sharp rise in oil prices and a greatly changed tone in the

The same is true in the steel and iron trade. Recent reports indicate a very general improvement in buying and prospects for an extremely good year.

As to railway traffic, if one had read only the newspaper headlines one would readily have believed that railway traffic last year was at a very high level. As a matter of fact it was not much above the expected normal rate of growth, and with present prospects might be much exceeded this year. The car loadings for January showed traffic well sustained.

The electrical companies report heavy forward orders and the immense takings of copper in this country in the last year show at present no signs of diminution. Likewise the sugar companies have felt the effect of stiffening prices.

As to the general price tendency, our index of 20 great basic commodities has shown now four consecutive weeks of advance, and this week rises 2 per cent. This is in line with current business conditions.

Measured in dollars, the rise in stock values in only the 233 stock issues listed in the Standard Company's index, from the low point of last July 3, amounts to about a billion and a half. The present market value of these issues is only 700 million dollars below the high point of 14 billions reached on the 21st of last March.

The rise from the low point in August of 1921 amounts to over 4 billion dollars.

It is these prodigious totals which give to the business man a real interest in stock market movements, and indicate how futile is the idea that such movements could be brought about by a few market manipulators, or in the face of adverse business conditions. Even if we give up the idea that the stock market is any wonderful "forecaster" of business, it still remains that it is a most excellent and sensitive barometer of business, and, involving as it does such vast sums and representing such extraordinarily diverse interests, seems far beyond any kind of arbitrary control, however concentrated and powerful.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 7, 1924

TO Governor Strong

SUBJECT: The Stock Market and Business

FROM Mr. Snyder

Just as supplementing what I wrote last week on the idea that the stock market is really a very close reflection of actual business conditions, I was last night mulling over the Standard Statistics' averages for 202 industrials, and was quite astonished to find that, just taking the deviations of the averages from the five-year average, you get a line that runs amazingly close to our index of the Volume of Trade--the composite of 56 series--so closely, indeed, that a three-months moving average of the two sets of indexes would be almost identical in their trends, the only difference being that the ups and downs of the stock market in percentages are about twice those of our line of the Volume of Trade.

Don't you think this is a quite extraordinary result, and could not possibly be the result of chance? I think I shall give this comparison in next week's Business Summary.

Noted & discussed today at luncheon

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 7, 1924TO Governor Strong

SUBJECT: _____

FROM Mr. Snyder

If you are to be in Washington next week, it occurs to me that possibly you might feel like going over to the War College and giving them that talk on "War Finance," as originally planned. They would infinitely prefer to have you and I should be very glad to sidestep it.

The talk is scheduled for Friday morning, February 15 at ten o'clock. If you should find yourself in the mood, will you kindly let me know in season?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 21, 1924

TO ^{Bo} Governor Strong and Mr. Jay

SUBJECT: So-called "Orderly Marketing"

FROM ^{Mr. Snyder} Mr. Snyder

Here is, it seems to me, an extremely valuable paper from Prof. Boyle, of the Agricultural College of Cornell University. His conclusions agree with a careful investigation made by J. E. Pope, formerly of the Census Department at Washington, showing that we have now probably as orderly marketing in grains and farm products as it would be possible to obtain, and, secondly, that on the average the farmer would gain nothing by carrying his produce for any longer period, and therefore that the notion that the farmer loses by being "compelled" to "throw" his products on the market is just a pure delusion.

But I suppose our friends at Washington will continue to persevere in their efforts for orderly markets just the same.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 21, 1924

To Governor Strong

SUBJECT:

FROM Mr. Snyder

You will enjoy Keynes' latest on the gold situation, and his malicious shots at the Egyptian and Chaldean bank directors. Certainly the man can write.

You will also be amused at the Nation's description of the new "Labor" Cabinet, as mostly made up of old, rich and ageing men.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 21, 1924

To Governor StrongSUBJECT: Currency and Prices in FranceFROM Mr. Snyder

It seems to me that there is a great deal of internal evidence to support your belief that large amounts of paper money in France have been hoarded and that much of this has been coming into circulation with the usual effect.

Before the War the total of gold and paper circulation in France, outside the Bank of France, was estimated at about $12\frac{1}{2}$ billions--6 billions of paper and about $6\frac{1}{2}$ billions of gold and silver.

But a considerable amount of this could scarcely have been in circulation, for the paper issue has not been above about 39 billions, or a little over three times the estimated circulation of 1914.

But the general level of prices in France, the cost of living, wages, etc., rose four times over the pre-war base, and commodity prices at wholesale over five times, taking annual averages and not the peaks.

Then came, of course, a drastic fall in all prices, which, however, was not nearly so heavy as in England or this country. Almost all prices are now still below the 1920 levels, some of them very markedly. For example, the index of commodities at wholesale rose to near 600 in 1920, and is now, as closely as we can figure it, around 470.

You will remember that 1922 saw a very sharp rise in the franc, to above 9 cents. This, with the rapid appreciation in its internal buying power, might readily have greatly increased the hoardings and paved the way, when these hoardings came out, for another sharp rise in prices, and the steady fall in the franc, without any great variation in the nominal amount of notes in circulation.

The total Bank of France issue, however, as you have noted, has now risen above the average for 1920. And the discounts of the Bank of France to private customers has gone up a full 50 per cent over the averages for the last year or more.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 26, 1924

TO Governor Strong

SUBJECT: Electric Power Production

FROM Mr. Snyder

6086

You will note that Mr. Dwight continues in his belief that electric power production is a good "barometer" of business, although we feel here that we have pretty definite evidence that it is not.

The most interesting thing about the article, it seemed to me, was the much greater growth in the last four years of electric production from fuel power than by water power, in spite of the high cost of fuel prevailing through most of this period.

they be all right. I shall not have time to read it. BS.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 26, 1924

TO Governor Strong

SUBJECT: The Dawes Committee

FROM Mr. Snyder

0186

I am wondering if you gave much attention to the report in yesterday's Times, giving a resumé of the supposed basis of the expert report on German reparations. I was particularly struck by the insistent reiteration of the idea that Germany is now free from debt, that "the War cost it nothing," and that the German railroads are free from debt, etc., etc.

This may be good politics, but is it not pretty bad economics? The evidence goes to show that, paradoxical as it sounds, the greater the public debts of a nation, as a rule, the greater its effective wealth, i.e., the wide distribution of a large body of securities seems to be the most effective means, under existing economic conditions, of mobilizing the savings of a nation. And of course so long as the nation owes the money to itself, this is a "burden" only to the politicians and finance ministers who must devise a taxing system.

The only real burden is the cost of collection and distribution, which never amounts to more than a very small percentage.

Is it hopeless to expect that this question will ever be settled on a "rational" basis?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 28, 1924

TO Governor Strong

SUBJECT: *Young's letter.*

FROM Mr. Snyder

When he went away, Mr. Young asked me if I would give him any impressions of the reaction in this country to the work of the Committee. The attached is largely the result of my talk with Prof. Mitchell yesterday, and I should be extremely interested to know how far you could agree with it.

*Don't agree
with all you write - but
is your letter! Why not
enclose copy of Times
Article? He may not
have seen it.
D.S.*

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 29, 194

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

Mr. Jay has the February Quarterly Journal of Economics which you ask for.

If there was anything in the letter to Mr. Young which you thought had better be modified, I should be very glad to know it. One reason I wrote just as I did was that, quite confidentially, I know that Mr. Young arranged to get in touch with the writer of the Times article before he left here.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 29, 1924

To Governor Strong

SUBJECT:

FROM Mr. Snyder

We live in a changing world!

Here is your friend, James R. Howard, of the Farm Bureau Federation, joining with Nat Murray, who was one of the best men the Agricultural Department ever had, and two other bright young chaps, in the making of an "Agricultural Business Service," at \$100 per year. Of course it is not so much for farmers as for the people who sell to farmers and make goods for them, but it is mighty interesting how things are being sifted and dissected.

For example, here is an estimate that the cash income of the farmers of Texas this year will exceed those of Iowa, which usually runs first, and that they will receive for their cotton in Texas an amount nearly equal to the entire receipts by the wheat farmers for their wheat, over the whole country.

Apparently the business and economic education of the nation is proceeding at a very rapid rate.

Should these be drawn?
Success
BS

HOWARD-MOORHOUSE

INC.

AGRICULTURAL BUSINESS SERVICE

58 EAST WASHINGTON STREET

TELEPHONE CENTRAL 6978

CHICAGO

February 27, 1924.

Mr. Carl Snyder,
Director of Statistical Department,
Federal Reserve Bank of New York,
New York, N.Y.

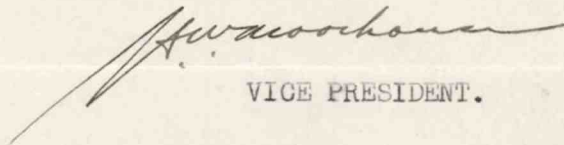
Dear Mr. Snyder:

We have this morning a request from your librarian for our bulletin concerning farmers' sales income from 1909 to 1924, which has been forwarded.

I am wondering if you would not like to receive our regular service. I am enclosing some of the reports to give you an idea of what we are doing.

I shall be very glad if you decide that you will want to receive these regularly.

Very truly yours,



VICE PRESIDENT.

HWM/HJ

The Howard-Moorhouse Agricultural Business Service includes frequent printed reports, consultation, and special attention to specific inquiries.

Some of the subjects covered are:

Cash Receipts of Farmers Estimated in Advance

Estimates made at the beginning of each agricultural year for the ensuing twelve months

Farm and Rural Purchasing Power

For the whole United States
By sections, such as the corn belt
By states

Answer this kind of question: Will farmers in Iowa take in more money this coming year than last?

Purchasing Power of Farm Industries

Such as the dairy industry
Appraises financial situation of farmers in the particular industry and analyzes the outlook for expansion of the industry

Prices and Markets (with charts)

A graphic comparison of price trends this year and last
Analysis of market conditions and outlook in grain, livestock and other markets
Includes survey of world supply and demand situation

Seasonal Distribution of Farm Income

Specifies percentage of income received each month
Gives advance notice of the times when cash will be flowing into particular sections

Many other subjects, such as—

Farm taxes
Loans and Interest
Costs of Production

Consultation—

In order that we may meet your intimate needs we ask you to submit to us special inquiries concerning agriculture as it relates to your business.

HOWARD-MOORHOUSE

Inc.

Agricultural Business Service

Established to:

Interpret agriculture to industry

Appraise the financial condition of the farmers

Correlate agricultural information from all authoritative sources

Secure original facts through field contacts

Give advance estimates of farmers' cash income

Serve in a national and international way as agricultural business specialists.

Responsible

A few brief facts about the men responsible for the reports issued by the Howard-Moorhouse Agricultural Business Service



Howard-Moorhouse

Inc.

Agricultural Business Service

CHICAGO

The men who comprise the Executive Staff of Howard-Moorhouse Agricultural Business Service are: James R. Howard, President; Nat C. Murray, Vice-President; H. W. Moorhouse, Executive Vice-President; Lloyd M. Graves, Secretary.



JAMES R. HOWARD

The President of Howard-Moorhouse, Inc., is James R. Howard, the first president of the American Farm Bureau Federation, whose outstanding achievement has been to interpret agriculture to industry and give new emphasis to the interrelation of the two. Mr. Howard supervises the operation of his Iowa farms. His farm balance sheets have shown a profit through the recent depression years.



NAT C. MURRAY

Nat C. Murray, Vice-President, through years of experience as Chief Statistician of the United States Department of Agriculture, has come to know intimately every phase of American agriculture. Previously he had been on the staff of the Cincinnati Price Current. He is now serving as statistician for Clement, Curtis and Company of Chicago.



LLOYD M. GRAVES

Lloyd M. Graves, Secretary, as statistician of the American Farm Bureau Federation, initiated two notable pieces of work which had never before been attempted. One, the appraisal of the financial effects of the tariff upon agriculture. The other, an estimate of farmers' sales and cash receipts. This latter study gives the truest picture yet drawn of the agricultural financial situation.



H. W. MOORHOUSE

H. W. Moorhouse, who is Executive Vice-President has a background of ten years of farming and business experience, and ten years of educational and economic research work as Dean of the School of Commerce of Oklahoma State College; Lecturer in Economics, Northwestern University; and Director of Economic Research of the American Farm Bureau Federation.

The Howard-Moorhouse Agricultural Business Service includes frequent printed reports, consultation, and special attention to specific inquiries.

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When—

**Dollars Are
Not Dollars**



Howard - Moorhouse
Inc.
Agricultural Business Service
CHICAGO

When Corn Is Not Corn

On the fall of 1923 when the price of wheat had declined to discouraging levels, corn, then at a high price, was pointed to as the salvation of farmers. Corn was high at that particular period because the old crop was almost used up. As soon as the new crop came on and farmers had corn to sell, the price declined from above one dollar a bushel to seventy-five cents. Even if the price had continued at one dollar or over, that would have had far less significance for agriculture as a whole than the price of *pork and beef and milk in which forms the bulk of corn is sold*. The largest share of corn is marketed as pork. Twenty-five per cent more hogs were sold in the calendar year 1923 than in 1922 and the cash returns to farmers were no larger for the bigger volume.

When Wheat Is Not Wheat

The man who speaks in generalities says that inasmuch as wheat is exported from the United States, a tariff cannot be effective. He fails to note that *wheat is not always just wheat* but may be a hard variety of high milling qualities of which there may be a deficit. In such case a tariff is effective. The fact that other varieties are exported is entirely immaterial.

And Dollars Are Not Dollars

The value of all crops, livestock and animal products produced in the year 1922 was estimated to be 14,-310 million dollars. *Did this mean that farmers took in that many dollars? Not at all. The figure was a theoretical one put out as such and not intended to represent farm cash income.* That it was generally so understood was not the fault of the Government Department which issued the figure.

Cash income of farmers in the agricultural year 1922 was 8,790 million dollars, some five billion dollars less than the theoretical valuation indicated above. Business men in laying their production and selling plans were aiming at an exaggerated farm purchasing power budget.

By the theoretical valuation method it was estimated that the decline in value of farm production from the peak of prosperity to the bottom of the depression was eleven billion dollars. This was a seventy per cent greater loss than shown on the basis of actual sales and cash receipts.

Advance Estimates of Income

Unfortunately the cash income estimates were not available during the trying years just passed. They have now been worked up and can be secured from the Howard-Moorhouse Agricultural Business Service. They are estimated at the beginning of each agricultural year and thus furnish business men, banks and all interested, with advance information on this vital subject.

Agricultural facts need interpretation. That is our job. We will gladly place at your disposal whatever we know about agriculture as it relates to business.

HOWARD - MOORHOUSE

INC.

Agricultural Business Service

CHICAGO

58 East Washington St.

Telephone Central 6978

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February 12

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1924

Farmers' Fixed Charges—Taxes and Interest

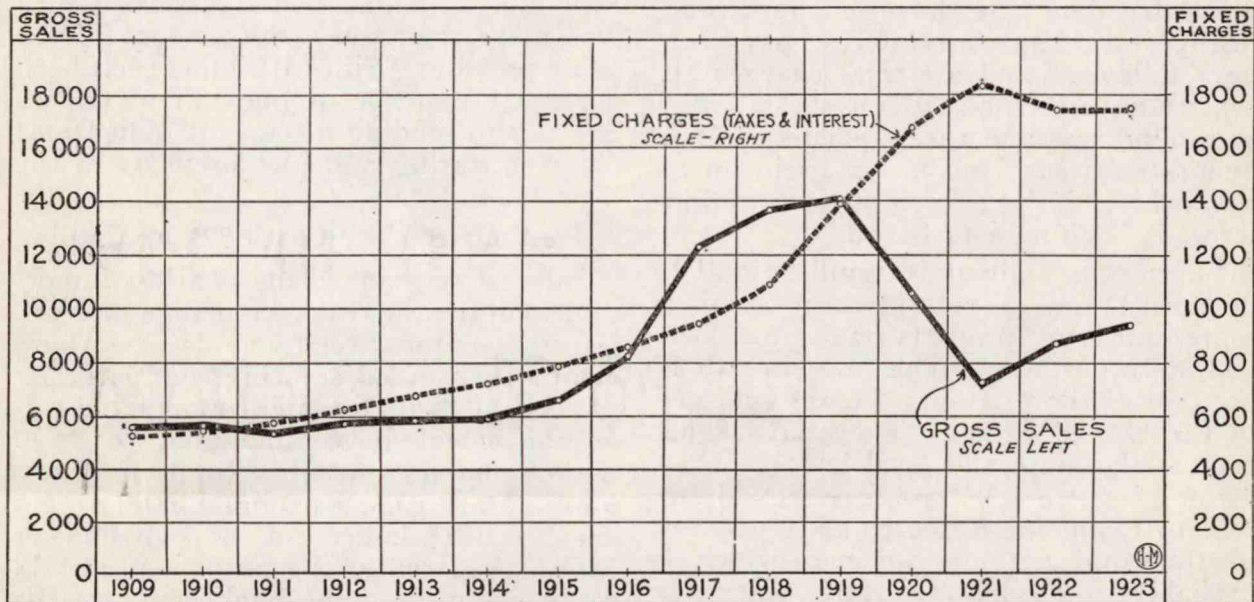
FARMING has been likened by some writers to manufacturing, but in some of its most typical economic characteristics it is more like railroading. Agriculture, like railroad transportation, is a heavily capitalized industry, with a low turnover and

Information on value of farm property is not available in any but census years, but 1919 probably represents about the maximum turnover.

The fixed charges in farming absorb ordinarily from 10 to 15 per cent of the gross receipts—relatively much more than

Trend of Farmers' Fixed Charges Compared With Gross Sales

In Millions of Dollars



a high ratio of fixed charges to gross receipts—including under "fixed charges" contractual interest and direct taxes.

The ratio of gross sales to capital investment runs from 15 to 20 per cent—a far lower figure than in any other industry. In the boom year, 1919-20, this ratio was 18 per cent; in 1909 only 14 per cent.

in manufacturing. As a consequence interest and taxes are an item of great significance in determining the farmer's purchasing power. Any material increase in the fixed charges bears heavily on the balance of available cash which the farmer has left for the purchase of machinery and equipment and for living expenses.

And if it so happens that an increase in the charges coincides with decreasing sales, the farmer is caught and pinched as between the two jaws of a vise.

During the past three years farming has labored under a fixed charge twice as burdensome as in prewar days. These charges averaged about 10 per cent of the gross sales from 1909 to 1913. After our entry into the war the ratio declined; but in 1920 it rose to 16 per cent, increased to 25 per cent in 1921 and now stands at close to twenty.

Rising Charges vs Falling Income

The severity of the depression of 1921 was greatly increased by the fact that fixed charges continued to rise for two years after income started its precipitate decline. The 14 billion dollars taken in by the farmer in 1919 had by 1921 been cut almost precisely in half; but taxes and interest continued to increase, rising from 1400 million dollars to over 1800 million. Since that date taxes have remained practically stationary, but interest payments have fallen off and the total charges appear to have become fairly well stabilized at around one and three quarters billion dollars. As cash income is again on an upward trend, the burden of taxes and interest is beginning to lessen.

Farmers pay about 900 million dollars in direct taxes. Ninety per cent of this is represented by property taxes for local and state purposes. The farmers pay 17 per cent of the total direct taxes collected in the United States. They pay 22 per cent of the state and local levies. Their income is estimated by the National Bureau of Economic Research at 18 per cent of the total national income—which is probably somewhat too low, since the farmer pays no house rent and much of his income is represented by food grown on the farm and figured in at farm prices instead of the retail prices, which other classes have to pay.

Taxes Take Nine Per Cent of Income

Studies by the National Industrial Conference Board reveal that the total burden of taxation bears more heavily on agriculture than on the country as a

whole. Their figures include indirect taxes—customs duties and excises. We are here considering only direct taxes. The burden of the latter, including both state and federal levies, do not seem more oppressive to the farmer than to the rest of the community. But in the case of state and local taxes on property the farmer evidently suffers some discrimination. In 1922 he paid out over nine per cent of his total cash income for state and local taxation, whereas other classes surrendered less than six per cent of their income.

Farm mortgage loans in 1923 amounted to nine billion dollars—the equivalent of one year's gross sales. The interest charge we estimate at 675 million dollars, or seven per cent of sales. These figures are two to three times as high as pre-war levels. The great increase in mortgage indebtedness came in 1919 as a result of land speculation after the armistice. The total amount on January 1, 1920, has been estimated at eight billion dollars which was more than twice the amount of ten years previous. Since 1920 there has been a further increase of one billion dollars due to the funding of current obligations incurred during and just previous to the depression.

Use Fourteen Per Cent of Bank Credit

Interest on bank loans is a less important item than taxes or mortgage interest. Farmers require relatively less working capital than manufacturing concerns. At the end of 1920 farmers' personal and collateral indebtedness amounted to 3,870 million dollars out of a total of 27,670 million short time loans outstanding. Figures for 1918 indicate a somewhat lower ratio. Apparently the farmers utilize 12 to 14 per cent of the bank credit of the country in producing at least 18 per cent of the country's wealth. Nevertheless, bank interest is not of inconsiderable import. The annual charges for the last two years we estimate around 200 million dollars. In 1921 it was over 300 million. It has varied in recent years between two and four per cent of the gross sales.

Looking into the future it appears that no material reduction in fixed charges may be expected. Taxes, at least the gen-

eral property taxes in which the farmer is interested, show little or no downward tendencies. Mortgage indebtedness can hardly be reduced with the prospects we have of an increase in land values from the bed rock which has now been reached; and personal loans have been reduced perhaps to as low a figure as is consonant with the volume of business done. This means that the burden of fixed charges on farmers for several years to come will be heavy; but the probabilities are that it will be a gradually lessening burden as income increases.

The table on the last page gives the estimated amounts of the bank interest, mortgage interest and direct taxes paid by the farmers each year from 1909 to 1923. This table is to be taken as illustrative of the general trend rather than as minutely accurate. Definite figures on either taxes or interest are available only for post war years and for 1909 and 1913, in the earlier period. The amounts for intervening years have been pro-rated in order to make a complete showing which can be looked upon as reliable in its general outlines.

FIXED CHARGES AND FARMERS' PURCHASING POWER

Any material increase in fixed charges bears heavily on the balance of available cash which the farmer has left for purchases.

Farmers pay 1750 million dollars for interest and taxes out of a nine billion dollar income.

Eighty dollars of every one hundred is left for operations and living expenses this year. Ordinarily it is ninety.

The distress in 1921 and 1922 was accentuated by rising fixed charges in a time of declining sales receipts.

Farmers pay 900 million dollars in direct taxes.

They carry nine billion dollars mortgage indebtedness on real property valued in 1919 at 66 billion dollars—now worth much less.

They carry from two to four billion dollars personal indebtedness.

Their mortgage interest charge is 675 million dollars. On personal indebtedness 175 million.

The future holds little prospects of a reduction in fixed charges but their burden is gradually lessening as income rises.

Estimated Charges for Interest and Taxes Paid by Farmers, 1909-1923

In Millions of Dollars

	1909	1910	1911	1912	1913	1914	1915	1916
Bank Interest	\$ 75	\$ 78	\$ 78	\$ 94	\$101	\$109	\$116	\$131
Mortgage Interest	220	225	235	240	250	260	265	270
Total Interest	295	303	313	334	351	369	381	401
Direct Taxes	225	240	260	285	315	350	400	450
Total Fixed Charges.....	520	543	573	619	666	719	781	851
		1917	1918	1919	1920	1921	1922	1923
Bank Interest		\$150	\$190	\$225	\$298	\$318	\$225	\$170
Mortgage Interest		290	350	550	618	644	656	675
Total Interest		440	540	775	916	962	881	845
Direct Taxes		500	550	621	750	872	861	900
Total Fixed Charges.....		940	1090	1396	1666	1834	1742	1745

HOWARD-MOORHOUSE INC.

Agricultural Business Service CHICAGO

58 East Washington St.

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February 21

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1924

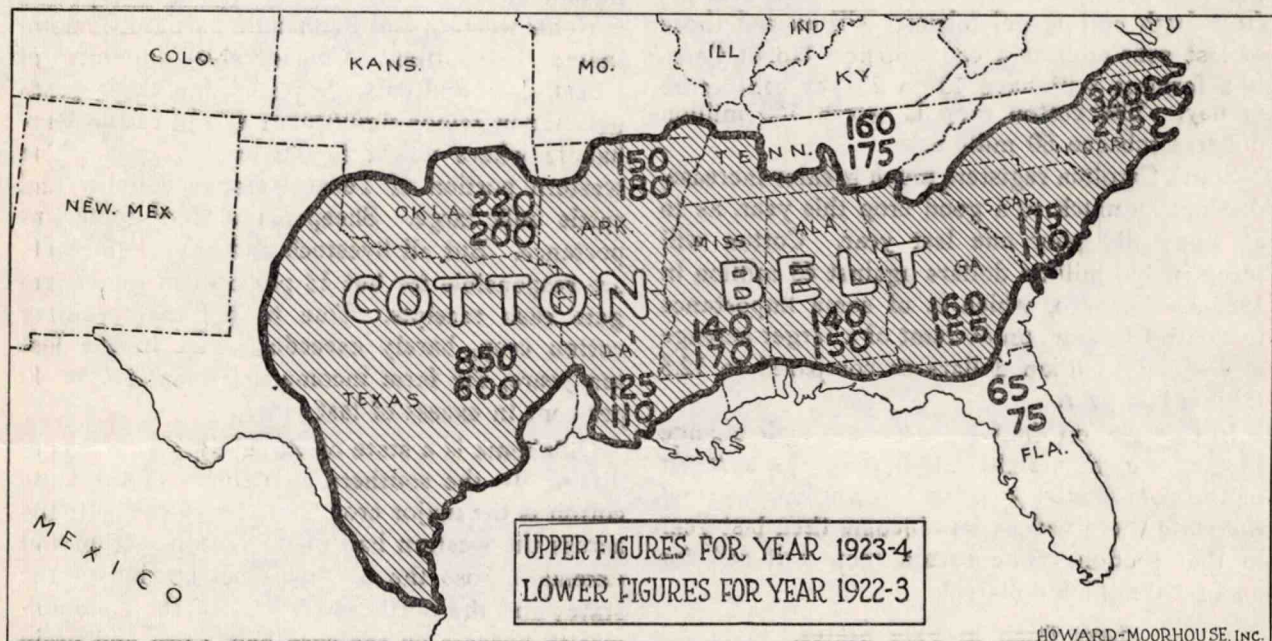
Cash Income of Farmers in Eleven Southern States

MORE than forty per cent of the farm population of the United States is in the cotton belt—13,649,000 out of 31,614,000. This population receives about one fourth of the farm cash income of the country and occupies 31 per cent of the acreage. The cash income is slightly less than that of the cornbelt, and on a

per capita basis it is much lower, amounting this year to \$185 as compared to more than \$400 in the corn states. The cash income of the farmers in the eleven states this year is two and one-half billion dollars. In 1922-3 it was in the neighborhood of 2200 million. Cotton belt purchasing power is therefore increased some 15 per cent, due almost entirely to the enhanced value of the cotton crop. The cotton belt's 300 million dollar gain is

Farm Cash Receipts

In Millions of Dollars



per capita basis it is much lower, amounting this year to \$185 as compared to more than \$400 in the corn states.

The cotton belt in its main outlines includes eleven states, stretching from North Carolina to Texas. The northern third of Oklahoma, the northeastern half of Tennessee and most of Flor-

ida are outside the limits of cotton cultivation. But these states are classed in the cotton section. The farm income of the cotton belt is derived mainly from cotton and tobacco, the former accounting for 60 per cent of it and the latter for five per cent. In all, crops bring in over 80 per cent of the cash receipts, livestock and their products less than 20 per cent.

more than twice the cornbelt's 125 million. But it is very unevenly distributed. Texas, the Carolinas, and Louisiana show increases of from ten to sixty per cent; whereas in Florida, Alabama, Mississippi, Tennessee and Arkansas there have been declines ranging from seven to sixteen per cent; with but little change in Oklahoma and Georgia.

Yield of Cotton Rules.

The yield per acre of cotton rules the situation throughout the south this year. An increase of over four million acres, representing 13 per cent, brought a total increase in production of but 250,000 bales, or two and one half per cent. The yield per acre declined from 142 pounds to 129 pounds. Yields were very low in Alabama, Tennessee, Mississippi, Arkansas, Oklahoma, and southern Georgia. In Texas and North Carolina, on the contrary, they were good.

To get an accurate picture of conditions in the cotton belt it is necessary to consider each state separately. In North Carolina cotton and tobacco dominate the situation. Cereals and other field crops, as throughout the south generally, are not important cash products. Livestock and their produce bring in scarcely more than 10 per cent of the farmers' income. Cash receipts from both cotton and tobacco will exceed those of last year and, as a consequence, North Carolina farmers will have 15 to 20 per cent more money. The cotton crop is worth 160 million dollars; tobacco 80 million.

South Carolina registers much greater increase, due not so much to a good crop this year, as to an unusually poor one last year. Cotton will bring in 130 million dollars against 65 million in 1922-3. Tobacco, which is of some importance in South Carolina, on account of a larger acreage is worth 18 million dollars as compared to 12.5 million last year.

In Georgia, on the whole, there is little change in the farmer's purchasing power. As a result of the poor cotton yield in the southern part of the state there will be less income than last year in that section. The cotton crop will sell for about 100 million dollars.

Less Cash in Five States.

Florida, Alabama, Mississippi and Tennessee will show losses in cash income, ranging from 10 to 15 per cent. Tennessee is the fourth largest tobacco state and has also considerable livestock interests, animals and animal products combined yielding nearly half the total cash income. In

Florida the citrus fruit crops have suffered a slump this year. In the other two states poor cotton crops are responsible for the decline.

Arkansas shows a decrease of 15 per cent in gross sales. The cotton crop was poor yielding only 97 pounds per acre whereas the five year average is 169 pounds. In northwestern Arkansas no cotton is grown, fruits and vegetables being the leading products. This year's apple crop is larger and the price somewhat higher than last year, but the gain is practically offset by the smaller peach crop.

Louisiana, in contrast to the states just named, will receive this year increased cash returns from both cotton and sugar, while the rice crop is worth practically the same as last year. The increment in cash returns from all sources will be approximately 10 per cent over 1922-3.

Forty Per Cent Gain in Texas.

Texas is by far the greatest cotton producing state. Over four million bales were produced this year on fourteen million acres, an increase of one million bales over 1922. The crop will sell for 675 million dollars and represents nearly four-fifths of the 850 million dollar cash farm income of the state. All of Texas, except the extreme western and Panhandle portions, is dominated by cotton. Considerable amounts of wheat, corn and oats are raised, but these products are of minor significance except in the Panhandle where wheat is the leading crop. The western portion of Texas is range country and cattle bulk large. Sheep are also of some importance. But all livestock and animal products are responsible for but 15 per cent in the aggregate cash receipts. Due to the extraordinary cotton crop, barely exceeded twice in the last ten years, the farm income in Texas is over 40 per cent in excess of last year.

Oklahoma is a state of varied agricultural conditions. In the southern two thirds of the state cotton is the major crop. But the wheat belt cuts across the western half of the cotton section and extends across the northwestern portion of the state; and the northeastern end of the commonwealth borders on the corn belt. Corn and grain sorghums, wheat, oats, livestock, dairy and poultry products figure in the agriculture of the central and northern regions. Taking the state as a whole, two thirds of the cash income is derived from crops and one third from livestock and their products. Cotton accounts for forty per cent.

Conditions in the state this year are only fair. The northern portion is just about breaking even, the cash income unchanged. The cotton section will receive 10 to 15 per cent more gross sales income but this has been gained at a higher cost of production. The yield per acre was very low and many farmers are in difficult straits.

The Future of Cotton.

The tensity of the world cotton situation has directed attention to the outlook for the American cotton belt in the future. The yield has been declining for ten years, and much talk is heard of the possibilities of developing cotton in foreign countries in competition with our southern states.

A survey of the factors of the situation leads to the conclusion that a normal production of from ten million to fourteen million bales may be anticipated in the United States for the future and that little apprehension need be felt by American growers on the score of foreign competition.

The reasons for this conclusion are: First, the boll weevil, which attains its maximum destructiveness about the third to the fifth year, has passed that maximum in all the cotton states

save North Carolina, and recuperation in productive capacity may be expected. Second, there is room for some expansion in cotton acreage along the fringes of the belt and on irrigated lands of California and Arizona. And third, a quarter century's experience of attempts by the British Empire to promote cotton production within its borders does not give indication of any great prospective increase in foreign production.

World supplies of cotton will probably be restricted and the price relatively high for some years. If inventions now in process, for the mechanical separation of the flax fibre, should prove commercially successful, the reaction on the cotton belt might be serious, though it would take time to develop the linen industry on a large scale.

Nor does there appear an immediate prospect for any material change in the southern agricultural system through diversified farming and livestock industries. Tendencies toward diversification in evidence a few years back have now been reversed with the advent of high prices and decline of weevil influence.

FARM PURCHASING POWER IN THE COTTON BELT.

Farm cash income of the cotton states is 15 per cent greater than last year.

It totals two and a half billion dollars—a quarter billion less than the cornbelt.

Over eighty per cent of it is derived from crops—60 per cent from cotton alone—and less than 20 per cent from livestock and animal products.

Conditions are very "spotty" ranging from a 60 per cent gain in South Carolina to 15 per cent loss in Arkansas and Mississippi.

Five states show a gain in income, five a loss, with one practically unchanged.

Texas leads all the states in the country in farm cash receipts, with income 40 per cent greater than in Iowa which ranks second.

**Percentage Distribution of Farmers'
Sales Receipts, 1923-24**

	N. C.	S. C.	Ga.	Fla.	Ala.	Miss.
Cotton	50	73	61	2	69	74
Other Crops	39	21	23	80	15	12
Livestock and Animal Products..	11	6	16	18	16	14
	—	—	—	—	—	—

Total	100	100	100	100	100	100
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	Tenn.	La.	Ark.	Tex.	Okla.	Total
Cotton	22	45	65	78	43	61
Other Crops	33	41	16	7	25	21
Livestock and Animal Products..	45	14	19	15	32	18
	—	—	—	—	—	—

Total	100	100	100	100	100	100
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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 29, 1924

TO Governor Strong

SUBJECT: French Exchange

FROM Mr. Snyder

In 1923 French imports were less than 30 billion francs, or, say, under 2 billion dollars.

I don't imagine their percent of imports to total product is very much greater than ours--surely much under 10 per cent.

I don't just see, therefore, how exchange rates can very seriously affect the general level of all prices, wages, etc., in France, any more than they would in this country; do you (commodity prices at wholesale to some extent, doubtless)?

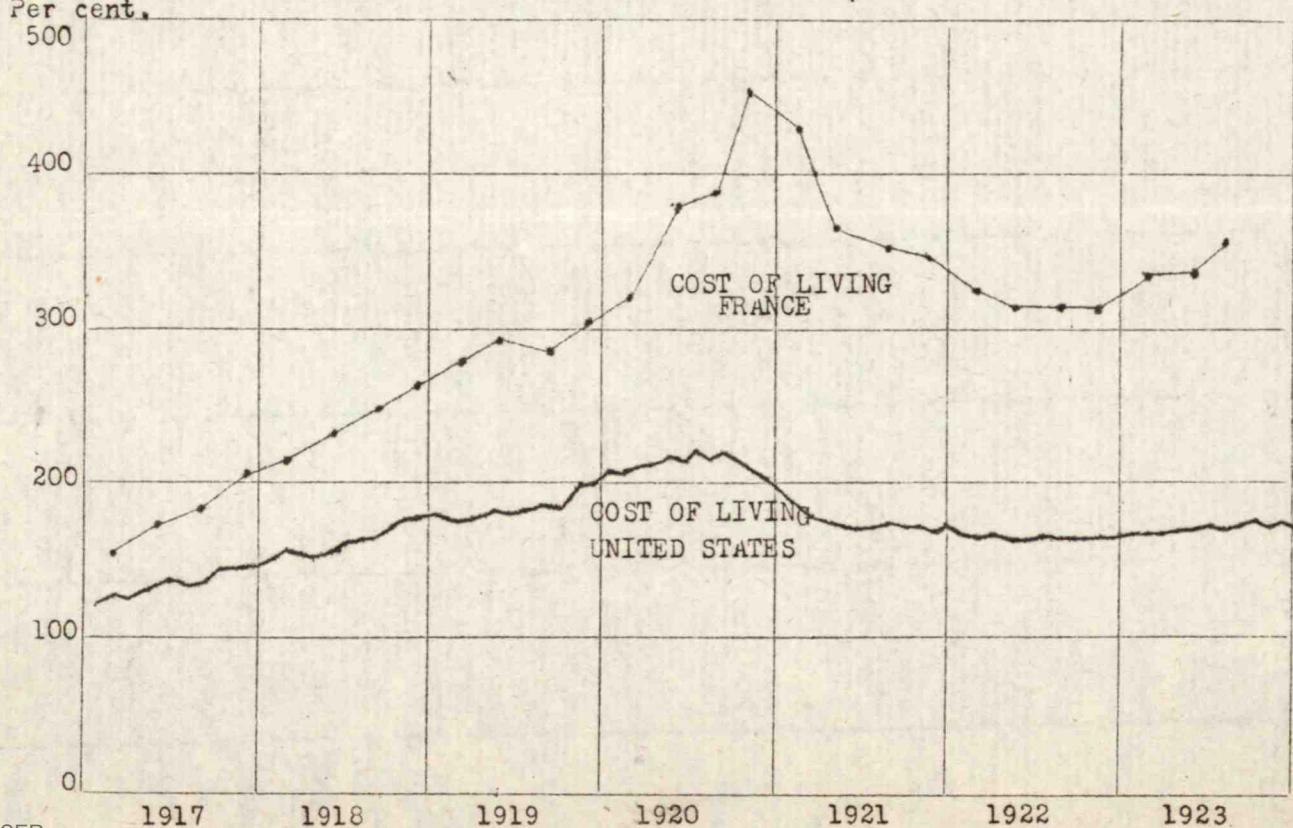
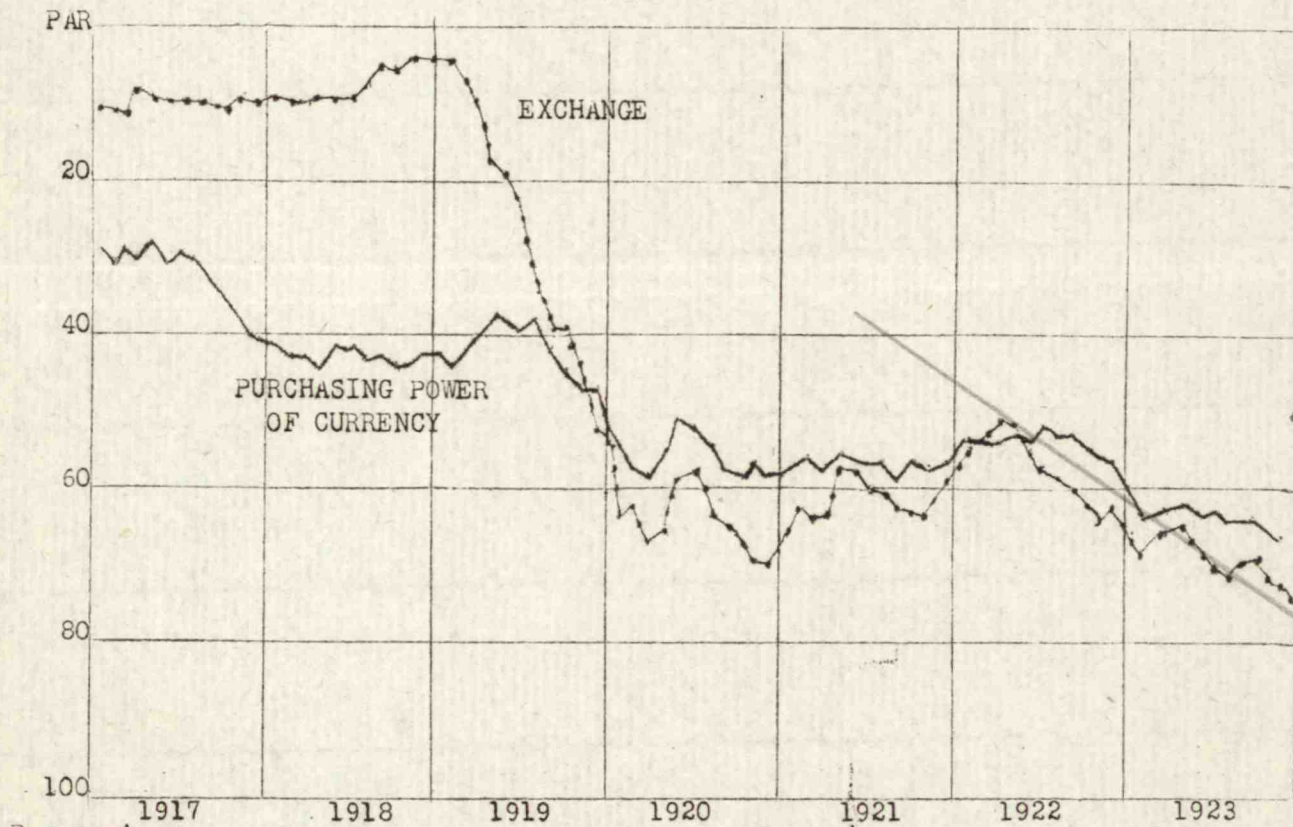
Present exchange rates make imports very dear to the French and their products very cheap to foreigners. Witness the reports of a great inrush of German buying of French goods.

Personally I don't believe that any sustained rise in the general price level of a country can take place unless it prints money or bank credit. Therefore, I believe that the French franc must be highly depreciated from its actual purchasing value, unless they have some subterfugeneous means of augmenting their currency or bank credit which is not evident in the bank of France statements or those of the big banks. Does this seem to you erroneous?

I attach herewith a chart showing the downward progress of the franc.

FRENCH EXCHANGE, PURCHASING POWER, AND COST OF LIVING.

The accompanying diagrams compare the depreciation of French exchange from par with depreciation in the purchasing power of the franc, and changes in the cost of living in France and in the United States.



Translation of Portion of Article in Le Figaro, Feb. 2, 1924

In asking for the authorization to proceed, by means of decrees, towards the reduction of expenses and a number of offices, the government asks only for the opportunity to effect promptly reforms which are urgent and which the nation demands. Against the external economic offensive (sic!) the executive power must have, with the authority, the means of accomplishment. The struggle over the finance plans will still be long. But from now on we need not be uneasy: germanophile finance has exerted pressure to the end that, in the panic of the fall of the franc, the Chamber should overthrow the government which has been able to gage the French claim. Well, the answer to that is, no! The Chamber has listened with a feeling of relieved confidence to the patriot who talked to it of the future of France, strong in alliances which will never mean servitude. The majority no longer hesitated. It will not yield. We shall keep the Ruhr and the franc will go up; in spite of everything.

(Note the last two lines!)

C. S.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 5, 1924

TO Governor Strong

SUBJECT: The Gold Question

FROM Mr. Snyder

The Reserve Banks or Board have no authority in the law to impound an excess of gold; and virtually when ^{they have} ~~it has~~ used ^{the} ~~the~~ discount rate and investment account to the limit, ^{they have} ~~it has~~ played ^{their} ~~its~~ legal line.

Mr. John E. Rovensky makes the proposal that the Banks and the Board shall be empowered to do two things:

(1) That they may at their discretion raise the required ratio of gold against notes, to 100 per cent or more if need be.

(2) That if this does not impound sufficient gold they may then raise the required reserves of Member Banks against their deposits.

Both of these actions only after a majority recommendation by the Advisory Council (representing the Reserve Banks) and a two-thirds vote of the Federal Reserve Board.

In your judgment would these two proposals be feasible, and would the second not possibly lead to large withdrawals from the System?

I'd appreciate your opinion.

Would like to discuss this.

RS

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OFFICE CORRESPONDENCE

DATE March 7, 1924

To Governor Strong

SUBJECT: French Note Circulation

FROM Mr. Snyder

MAR 7 24

With the billion and a half jump in the Bank of France note circulation in the last two weeks, this brings the net expansion from the extreme low point reached in the spring of 1922 up to 5 billions, or about 14 per cent. At that time the franc touched close to 9 cents.

This expansion, with perhaps an equal amount brought out of hoarding and put into circulation, would about account for the increase in prices and the cost of living.

But this would not account for the steady pressure on the exchange market throughout the entire period. At today's low the franc is rated at approximately one-half what it was when the French entered the Ruhr.

Now, in spite of all their violent protestations, they have *lately* expanded rapidly and just at a time to arouse the most extreme apprehension.

Is it not another instance of the monumental ineptitude which seems characteristic of almost every kind of governmental action, everywhere in the world?

- Or has the dam busted?

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OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 7, 1924TO Governor StrongSUBJECT: Opening of the New BuildingFROM Mr. Snyder

MAR 7 1924

Mr. Jay has asked us about suggestions for a programme for the opening of the new building.

It seems to me it would be mighty well worth while to take a whole week for it, and have receptions every afternoon, say from three to six, with special invitations to all the different classes as, for example, a day for the bankers, another for the press, writers and economists, a ladies' day, another for merchants and manufacturers, another for professional men, perhaps a day for the Chamber of Commerce, Merchants' Association, etc.; and so on.

With little four-minute addresses from, say, six or eight different speakers each day, one or two from the Bank and the others from the outside.

And then a general reception, open to the whole public, for Saturday, from twelve to six. It seems to me an opportunity to make a highly impressive exhibit of the bank's activities--have the corridors placarded with various charts and brief statements of the activities of each department.

Does this coincide with your ideas?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 3, 1924 192To Governor StrongSUBJECT: Fall in French ExchangeFROM Mr. Snyder

Your observation on the memorandum in this week's Summary is quite just; it was clumsy not to have included any reference to the effect of hoarding and dehoarding, which is, of course, exactly equivalent to currency curtailment or expansion. In a previous memo. I fully concurred in your view as to this.

But has not the effect of this dehoarding a pretty clear limit, so long as the total amount remains unchanged?

And if so, must we not then consider that at the 1920 level of, say, 7 cents the franc was greatly overvalued, and still more in 1922, or is now much undervalued?

Of course the whole question is confused by the fact that we don't know the total amount of gold, silver and paper in circulation in France before the War. The nominal amount always seemed very high.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 3, 1924TO Governor StrongSUBJECT: The Hoover Inquiry on ForeignFROM Mr. SnyderBalances

While we have had more actual replies this year than last to the questionnaire on foreign balances, we feel that the results this year were worth even less than last.

A number of the firms, and especially those which have to do with German clients, seem to feel a good deal of suspicion, and a number of them have failed to reply. Which is also true of those who made it a personal matter to you last year, asking that they be excused.

Of course we want to do as much for Mr. Hoover as we can. Do you feel that it is worth while to select, say, a dozen of the larger firms that have not answered, which would, of course, include the same cases as last year, and ask them if they could oblige us?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 4, 1924

TO Governor Strong

SUBJECT: _____

FROM Mr. Snyder

1869

MAR 25 AM

You may like to see the numbers containing the discussion of Keynes, Strakosch and others, on the gold prospect. I have given a little resumé of this in the Business Summary this week.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 4, 1924TO Governor StrongSUBJECT: Masson SpeechFROM Mr. Snyder

Certainly very clever and very interesting, as reflecting the French mind. As if there was no difference between an indemnity of about a billion dollars and the trifle of a proposed levy of around 40 billions!

Is it not very illuminative of the lengths that the human mind will stretch?

It is interesting to note that the speech was so well thought of that it is reproduced in French in the weekly Figaro, which, as you know, is intended for American propaganda.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 4, 1924

TO Governor Strong

SUBJECT: _____

FROM Mr. Snyder

(Paris)

In the last weekly Figaro, for American consumption, the leading editorial on M. Poincare's "great effort before the Chamber of Deputies," on the reparations situation, new taxes, etc., closes with the attached 'perfect gem.'

If this is the real sentiment of France--!

Canute & Joshua were amateurs!

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OFFICE CORRESPONDENCE

DATE March 7, 1924To Governor StrongSUBJECT: A. B. A. Meeting at ChicagoFROM Mr. SnyderMAR 7 1924
MAR 7 1924

The next meeting of the American Bankers' Association will be held in Chicago, and they have asked us for any suggestions we could make in the way of exhibits, etc.

I think we ought to go out of our way to give them any help we can, for they are a bungling lot. But, more than this, I am wondering if it is not a fine opportunity to drive home the detachment of the farm industries of the Northwest from Federal Reserve policies.

I thought, for example, of some big charts or pictures which would vividly depict the utterly opposite courses of corn, cotton, and dairy products ^{prices} from those of wheat and the smaller grains, throughout the period of so-called "deflation."

There will probably be thousands of country bankers at the convention, and this would be a good chance to educate them. Could we have a talk with you about this?

OFFICE CORRESPONDENCE

DATE March 10, 1924

TO Governor Strong

SUBJECT: The McNary-Haugen Farm Exports

FROM Mr. Snyder

Bill

MAR 13 1924

In considering such a measure as the McNary-Haugen bill it seems to me that due attention should be given to the following facts:

(1) According to the recent census of farm population, of the 31,600,000 people recorded as residing on farms, nearly an even half (and if we include Oklahoma a little more) reside in the states of the Old South. Taken as a whole, the farmers in these States, through the high prices for cotton, tobacco and similar products, have been generally prosperous.

For example, the cotton raised in the State of Texas this year was equal in December value to nearly the whole wheat crop of the United States.

(2) Dairy products have generally commanded good prices, so that most of the farmers in the states of large dairy production, all the way from New York to Iowa, have been generally prosperous.

The same is true of most of the fruit-raising states, save in special cases when an over-large product has been withheld from the market to force higher prices, and, as usual, the attempt has collapsed.

(3) Our largest single crop, corn, has commanded in the last year rather high prices, and while the prices for hogs have been much lower, taken as a whole the corn-belt farmers have not suffered from the prices received for their products.

All these taken together include more than four-fifths of the total farm population.

(4) The latest Bulletin of the Department of Agriculture shows that the weighted average of the retail price of thirty-two different farm products was almost exactly the same per cent above the pre-war level as the Bureau of Labor index of all commodities at wholesale, i.e., a shade over 50 per cent.

The oft-repeated assertion that "the farmers are facing a real calamity and need help," seems on the available evidence, therefore, absurdly untrue for at least four-fifths or more of the farm population.

(5) Practically the only type of farmers suffering seriously from the prices of their products are the raisers of small grains, and of these the chief are the raisers of wheat; and the facts regarding these are as follows:

(a) Approximately two-thirds of our wheat is raised in the winter wheat area, or in precisely that area in which diversification of crops is the easiest and most generally practised.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 10, 1924

To Governor Strong SUBJECT: The McNary-Haugen Farm Exports
 FROM Mr. Snyder Bill

2

(b) We have now had depressed fall or winter prices, which largely determine the winter wheat planting, for four consecutive seasons. In the face of this the acreage sown to winter wheat has only been moderately reduced from the heavy expansion encouraged by war prices, and is still above the average pre-war acreage.

(c) If a clothing manufacturer or a plow factory continued to turn out an immensely larger product than could be sold at a profit, would this be generally regarded as a proper ground for the Government to buy up the entire product of clothing or of plows?

(6) Practically the only area in which the farmers are facing a real calamity is in the spring wheat area, and this has been brought about by an unusual combination of factors.

These are, a succession of seasons of scant rainfall and low yield, which, coupled with the prevailing low prices for wheat, has been disastrous.

All this has been paralleled by a very heavy expansion of the spring wheat acreage in Canada, and, especially in this last year, extraordinarily high yields per acre.

(7) It is the opinion of many careful judges that a considerable part of our spring wheat area lies in a semi-arid rain belt, which never ought to have been planted to wheat at all. Prompted by the enormous prices reached in the War, and by a fair run of rainfall, these areas were occupied and cultivated. But it was a highly hazardous risk, and the adventurers in this field have paid the penalty.

It is obvious that this is not an area which can quickly be converted to other products. Part of it, clearly, is only fair grazing land. But it is the belief of experts like Mr. B. W. Snow, of Chicago, that considerable areas of this type could be converted to cattle raising and dairy products, if sufficient capital was supplied. Obviously a fictitious price for wheat is not the remedy here.

(8) Taken as a whole, the farm population of the whole spring wheat area does not exceed 10 per cent of the total farm population of the country; and the proportion of those dependent wholly upon spring wheat raising is very much smaller than this. I believe, therefore, that it would be fair to say that the whole proportion of farmers "facing a real calamity"

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 10, 1924To Governor StrongSUBJECT: The McNary-Haugen Farm ExportsFROM Mr. SnyderBill

3

is very much less than 10 per cent of the total; and for this 10 per cent, or less, the remedy clearly seems to be aid and the supply of capital towards the diversification of industry, and not encouragement and governmental aid blindly to persist in raising crops which they cannot sell at a profit.

(9) The writer was one of those called in the conferences of the Department of Agriculture last summer and fall, to discuss the farm outlook. In one of these conferences I sat as a member of the Wheat Committee. The views here expressed are partly those of others, of much more expert knowledge of the situation than that possessed by the writer, and are, I believe, generally the views of agronomists who have patiently and carefully considered the situation. Born and brought up in one of the richest farm sections of the Middle West, it seems to me that almost my earliest recollections were some form of "demand for relief" by the farmers of some section or other. And it never ceases.

I am also attaching herewith the opinion of Mr. George E. Roberts, former Director of the Mint, who is not only an economist of high standing but a large owner of Iowa farm land, born and brought up in that section, and probably as intimately acquainted with all the facts as to farm economics and the present situation as any man in the United States.

(10) The cotton planters of the South are receiving this year approximately twice the relative pre-war price for their product. This is for our chief agricultural money crop. Does anybody suggest that part of this enormous excess income be taken from the cotton planters and given to the wheat planters? And if not from the cotton planters, is there any more reason why it should be taken from the dairy farmers, or from factory workers, or from bank clerks and the rest of the population?

(11) Without any one of these objections, it would still seem to me that the McNary-Haugen Bill was a vicious and impractical measure for the reasons stated by Mr. Roberts in his review. Is it not perfectly clear that the measure would defeat its own object, even if it were carried out? Obviously the consumptive capacity of the wheat-consuming nations is, to a certain extent, limited. If now we attempt to sell abroad more of our wheat surplus than we are now able to sell, the effect of this would be to still further depress the Liverpool or foreign price of wheat. This, in turn, would mean ruin to the wheat farmers of Canada, Australia, the Argentine, and other countries.

Surely there could be no such undertaking by this country that would not provoke similar action and a retaliation by other countries.

(12) In brief, it seems to the writer that this Bill is just another of those fatuous and fantastic efforts to defeat the workings of

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 10, 1924To Governor StrongSUBJECT: The McNary-Haugen Farm ExportsFROM Mr. Snyder

Bill

4

economic law, of which we have had hundreds if not thousands of examples through hundreds if not thousands of years.

It is a bonus bill of the worst type, and of the most utterly futile.

(13) Finally, would it gain any votes, on balance, for the political party which sponsored it? Over one-half the population of the country now resides in towns or cities of over 2500 population. Under 30 per cent of the population now resides on farms, and not all of these are actual farmers. The average or normal value of the wheat crop is not much over 7 or 8 per cent of the total value of all farm products, and I do not believe that to exceed 10 per cent of the population is vitally interested in wheat raising.

The present prices of wheat in Chicago now approximate those of Liverpool, although the cost of freightage between the two points is around 26 cents. In other words, wheat prices in this country are much above the world level, and, for the 650 million bushels of wheat which the people of this country consume, they must pay a correspondingly higher price. This surcharge must be paid by other workers and consumers, who outnumber the wheat raisers by I should say at least ten to one.

There are sane and rational methods of relieving the wheat farmers of the country of their present distress. But the McNary-Naugen Bill seems to me to be as far from this category as anything well could be.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE: March 12, 1924

To: Governor Strong

SUBJECT: Impounding Our Surplus Gold

FROM: Mr. Snyder

Federal reserve note circulation has now fallen to about two billion dollars, while the gold certificates in circulation have risen to nearly 600 millions.

Meanwhile, we nominally have outstanding some 721 millions of National bank notes, about 294 millions of the old "greenbacks," and 357 millions of silver certificates, or a total of 1372 millions. Against these and some other accounts the Treasury now holds a total of about 343 millions of gold.

Now if Congress were to retire all of the National bank circulation, the old greenbacks and the silver certificates, and substitute for these gold certificates, this would, after using the Treasury gold, reduce available gold holdings by about a billion dollars; and if to this were added the Federal reserve notes, the total reduction would be about 3 billions.

Deducting the gold held against gold certificates and the semi-mythical amount of "gold in circulation outside of the Treasury and the Federal Reserve Banks," this would nominally leave little or no gold in the Federal Reserve Banks.

But of course gold certificates could be used for Member Bank reserves just as well, and it is in no wise clear that anything like the full amount of Federal reserve notes, National bank notes, greenbacks and silver certificates could be recovered.

Aside from the considerable amount which has gone abroad, maybe 200 millions or more, there is always the inestimable amount that has been lost, burned or stored away in stockings or other family hoards.

In brief, it seems to me that it would be perfectly possible to do away with most of our nominal gold surplus and very simply, so that we should no longer have any such high and growing ratio of gold to liabilities as we have now.

Why would not this be much simpler, and safer, than to resort to what would look like strong arm methods on the part of the Federal Reserve Banks, that might very seriously endanger the future of the System?

Answered verbally - 3/14/24
P.S.

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OFFICE CORRESPONDENCE

DATE March 12, 1924

TO Governor Strong

SUBJECT: Raising Member Bank Reserves

FROM Mr. Snyder

MAR 13 1924

I am attaching some correspondence I have had with Mr. Rovensky and Mr. Catchings regarding the proposal to empower the Federal Reserve Board arbitrarily to raise the reserve requirements for Reserve Banks (and also the required reserve against Federal reserve notes).

I am wondering if the same objections would not apply with equal strength to any roundabout way of achieving the same end, such as reclassifying the reserve cities, etc.

Of course if it could all be done now, when there is no great pressure for expansion; and if it could be done with the avowed object of impounding our surplus gold, then perchance it might be successful.

But what would happen if the big swing up in trade in February should persist and we should again find ourselves, so to speak, in the midst of a "healthy" (!) little boom, with rising prices and pressure on the banks for loan expansion?

Is it not likely that no action would be taken by the Board until a serious menace was apparent, and inflation was actually well under way?

And my question is, How would the 10,000 banks of the System, outside of New York City, take it if they saw the other 20,000 banks not in the System free to expand while they were being sharply curbed?

Would they stand for it?

I wonder if there is not a safer alternative that might be submitted to Congress by the Board. I attach a suggestion.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 14, 1924TO Governor StrongSUBJECT: Reduction in Wheat AcreageFROM Mr. Snyder

MAR 15 12

When I wrote the memorandum on the McNary-Haugen Bill I did not have at hand the figures as to the increase in wheat acreage.

According to the attached statement by Secretary Wallace, the wheat acreage for 1923 was still 24 per cent above the pre-war average. Practically all of this was winter wheat acreage.

The spring wheat acreage has lost all of its wartime gain and was this year below the pre-war average.

This means that this huge expansion was precisely in the area where it would have been most feasible to change over to corn or some other crop.

Does it not seem the last gasp of folly that the Government should deliberately undertake to preserve this absurd situation by a huge bonus to keep up a fictitious price for wheat?

Sweely
BS.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 18, 1924

TO Governor Strong

SUBJECT: The Catchings-Foster Paper

FROM Mr. Snyder

(i.e. to Mr. Foster etc)

With your permission I should very much like to forward your note on the Catchings-Foster paper for the Harvard Business Review.

But I cannot help thinking that at least in one instance you hardly do justice to the spirit of the paper. This is as to the question of a proper guide for the determination of Federal reserve policies.

So far from wishing to entrust the question of proper policy to the judgment of any board or set of men, however wise, their proposal is, as I understand it, directly the reverse. This is that, instead of these policies being left to their judgment, wise or otherwise, these policies shall, in the absence of any strongly deterrent factor, be determined strictly with reference to an index number standard, and with a view to maintaining a fair degree of stability in the purchasing power of the dollar.

And I cannot help thinking that Dr. Foster, or whoever it was the other evening, was right in suggesting that, in the light of our present exchange, another such huge wave of pure credit inflation, such as occurred from about the middle of 1919 to the latter part of 1920, would bring far greater odium upon the Federal Reserve System, and occasion far greater disappointment, than any kind of an attempt to maintain some sort of credit, business and price stability. And I have gained the impression that this is equally your own view.

Personally I don't feel able to see how the Federal Reserve Banks, or Board, or, if you prefer, the whole banking organization of the country, can, in the absence of the natural coercive effect of the gold standard in full operation, escape the responsibility of so managing their credit expansion as to avoid serious inflation; do you? And what other test of proper credit control and of inflation is there save in a reference to some form of index number of prices.

Of course if you will say that experience has shown that credit expansion limited to about 4 per cent per annum will meet the adequate demands of trade and maintain a high degree of stability, and that the Federal Reserve System shall therefore fix its policies with reference to this experience, you would have then an empirical and possibly safe guide to policy. But it would be one wholly unfamiliar to the public and probably sharply contested by every Anderson in the country.

I cannot get away from the feeling that in and since the War there has been a tremendous popular education in the question of the relation of money and prices, and the need of stability and restraint in the manufacture of credit. Doubtless you will agree to this. And, so believing, and in the face of utter chaos that most otherwise obtain in the absence of the old restraints, under the gold standard, how can we escape the responsibility of effecting some kind of a Rule of Reason; do you?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 18, 1924

TO Governor Strong

SUBJECT: The Catchings-Foster Paper

FROM Mr. Snyder

2

It seems to me good policy to maintain friendly relations with such intelligent opinion upon this subject as may exist--

Prof. Mitchell was in yesterday and I should like to tell you of his reaction to the dinner the other night.

EDWARD
WELLS

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 19, 1924

To Governor Strong

SUBJECT: _____

FROM Mr. Snyder

Please let me know if this letter is of sufficient detail, in view of the memoranda to be attached.

I notice that your friend Sydney Anderson comes out this morning equally strongly against the McNary Bill. See attached.

FEDERAL RESERVE BANK
OF NEW YORK

March 19, 1924

My dear Mr. President:

I have been urged very strongly by the proponents of the McNary-Haugen Bill to write you in its behalf. But I regret to say that I can form no favorable opinion of it. For the reasons set forth in the attached memoranda it seems to me, I am constrained to add, one of the most unworkable and preposterous bills that I ever had occasion to examine.

I note that my friend Sydney Anderson, Congressman from Minnesota, expresses in the morning papers the same view.

As I understand it, from Secretary Wallace's report upon the wheat situation, the winter wheat acreage is still much above the pre-war level, in spite of the fact that it would be in precisely these areas that it would be most feasible for the farmers to change over to other and more profitable crops.

The estimated reduction of over 5 $\frac{1}{2}$ million acres in the winter wheat planting of last fall, and of some 14 per cent in the proposed spring wheat planting this year is, to my mind, the only sure solution of the wheat difficulty; and this, I am told, was the view of the economists called in conference by the Agricultural Department last summer.

Does it not seem the height of folly to propose to maintain an uneconomic situation through a measure that would, I believe, tend to disrupt the markets of this country, if they did not seriously interfere with world markets as well?

I should be very strongly in favor of some measure on the order of the Norbeck Bill, which would provide the farmers of the spring wheat area, who have been so desperately hard hit, both by inadequate rainfall and low prices, with sufficient capital to attempt some diversification of their crops and activities. We have seen in the last fifty years what a wonderful dairy region may develop out of the once unpromising wilderness of Wisconsin. Such a measure might be really sane and beneficent legislation. But the other bill seems to me neither.

Pray believe me, with great respect,

Sincerely yours,

3 memoranda attached.

GOVERNOR'S COPY



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OF NEW YORK

27 2 4 1-100M-3-23

OFFICE CORRESPONDENCE

DATE March 18, 1924 RECEIVED-2
MAR 18 1 52 PM '24

TO Governor Strong

SUBJECT: Wages and Prices

FROM Mr. Snyder MAR 18 1924

You will be interested in this comparison of the average weekly earnings of the employees of the big silk firm of Cheney Brothers, and wholesale prices. You will see that their index, even last October, was running around 260, which compares with average weekly earnings of factory operatives in New York State of around 220.

And yet the striking thing is that the textile people generally are complaining of the high cost of materials and of the difficulty of moving their goods freely at the corresponding prices. I wonder if this does not go some way towards explaining the present rather stagnant tendency in the textile trades?

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OF NEW YORK



OFFICE CORRESPONDENCE

DATE March 19, 1924

To Governor Strong

SUBJECT:

FROM Mr. Snyder

MAR 19 1924

Perhaps the following bit about the Southern California boom, from my father who is down there, is of interest.

He says:

"I attribute the long boom of which the London Economist speaks as largely due to the attractions of the climate and to a veritable craze which has struck the people out here. I never knew such wild speculation as is now going on, and I am looking for the boom to break one of these days, and when it comes there will be more poor bankrupt souls floating around here than was ever dreamed of. This applies especially to the speculation in real estate. They are laying out additions without end, and it doesn't seem to make any difference how many or how far out they go or what are their locations. The newcomers jump for them.

"The papers say that there are 310,000 autos on the streets of Los Angeles every day in the year, and from what I get from a nearby dealer I judge that a large portion of them are still unpaid for. But this fact does not seem to lessen the sales, as the public down here seems to be about as automobile mad as in other lines."

GOVERNMENT
 FEDERAL RESERVE BANK
 OF NEW YORK



OFFICE CORRESPONDENCE

DATE March 19, 1924

TO Governor Strong

SUBJECT: The Upswing in February

FROM Mr. Snyder

MAR 20 1924

They have just given me the computed index of building permits for the month of February. Taking into consideration the short month and the usual seasonal tendencies, the index rises this month to 200, or even higher than the peak month of March of last year, and the record so far as the index extends.

This heavy increase compares with other marked increases in the indexes of bank clearings, car loadings, iron and steel production, automobile production, and several others--all exactly contrary to the firm expectation of the great majority that this year could not possibly be as good a year as last year.

And yet I hear everywhere of business men complaining, and expressing grave forebodings--always, I believe, having in mind the fanciful profits that they would like to make, and without much regard to the industrial and social service they perform.

It makes you wonder if one can ever trust anything that any business man will say about his own industry or business in general.

I heard of one case of a pig iron manufacturer insisting that the situation there was very dark, because they were selling below the cost of production. This in the face of the fact that pig iron production in the last three months has increased by more than one-quarter.

* which will undoubtedly make our
 Volume of Trade index for Feb.
 the highest of any month since
 last March.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 20, 1924

TO Governor Strong

SUBJECT: Prof. Young's letter

FROM Mr. Snyder

I am puzzled by Prof. Young's letter and I believe his fellow members on the Committee would be also.

Prof. Young accepted membership on the Committee a good while ago, with full and definite knowledge of its purpose, its general ideas, and its personnel. He now seems to take a position opposed to any kind of measure towards stabilization; and even of doubt of its desirability.

And I am staggered at his suggestion that in the face of production, construction, distribution and trade proceeding now close to if not above a record point, that a ten or fifteen point inflation from the present price levels would be beneficial.

From what little contact I have had I get the impression of a man of unstable and nebulous opinions, but strong in opposition; and swept by emotional waves in one direction and another; not a man to "go tiger hunting with."

OFFICE CORRESPONDENCE

DATE March 21, 1924TO Governor StrongSUBJECT: Trend of BusinessFROM Mr. Snyder

Attached are the latest figures obtainable for the more important of the 58 particular indexes of production, distribution and trade now maintained by this department; figures for the last four months as compared with the high point of last year.

BANK CREDIT. In the 800 Reporting Banks, almost no change since the first of the year in loans or deposits, and very little change from the high point of last year reached last May.

All National Banks, data of last call, December 31, show loans and deposits a little higher than the high point of December 29, 1922, but in percentages the difference is very slight. In a word, remarkably little expansion.

Street loans, latest date, compiled March 12, still rising and about 280 millions above the low point of last October. Still about 260 millions below the peak reached last May.

PRICES. Trend of our index of 20 great basic commodities still slightly upward from the low point of last July, but a very little change in the last six or eight months; fluctuating around 150. Bureau of Labor index about the same.

A new weighted index of 32 different farm commodities recently prepared by the Agricultural Department shows an average of farm prices at just about the same level in February as the Bureau of Labor index for all commodities.

Our new index of the general average of all prices, including commodities, wages, rents, etc., now about 180 and tending steadily upwards from the low point reached in 1921.

WAGES. Most of the wage indexes still practically at the peak of the last three years and ranging around 220.

STOCK MARKET. Standard Daily Trade weighted index of 202 industrial stocks slightly below the high point reached in February, which in turn was about 5 points below the high point of 114.1 reached in March.

PROSPECTS. Almost all of our business prophets have been repeating for more than a year that the building boom, or the automobile boom, or the railroad buying, etc., etc., could not go on. But they have.

We have easy money and a steady inflow of gold. Total receipts to date this year about 100 million dollars, or at a higher rate than last year. The scandals of the Grant Administration were more serious than

FEDERAL RESERVE BANK
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OFFICE CORRESPONDENCE

DATE March 21, 1924To Governor StrongSUBJECT: Trend of BusinessFROM Mr. Snyder

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at the present time, and not nearly so unsettling to business as the waves of greenbackism, populism and the prolonged agricultural depression of the nineties.

Now the part of the farm population affected is very small, not to exceed 10 per cent of the population of the country, and the only part of this population very seriously hit are the boomsters who bought land and mortgaged it to the hilt in the post-war boom.

I don't see grounds for apprehension, and still believe that there is more danger of undue expansion than of a slump.

I would like to recall that just before I went away last August 4 I wrote you expressing my belief that July would prove the low month in the reaction, and so it has proved thus far, alike for volume of business, commodity prices and stock prices, and I am inclined to think it will so remain for some time to come.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 16, 1924TO Governor StrongSUBJECT: ButterworthFROM Mr. Snyder

Mr. William Butterworth, President of the Deere Company in Moline, Illinois, was in today and very deeply concerned about this McNary-Haugen Bill, which he regards as a vicious and impractical measure. Their Association of Agricultural Implement Makers has unanimously gone on record as opposed to the Bill, in spite of George Peake's advocacy of it.

But it appears that in Washington the Congressmen and Senators are afraid to vote against the Bill because they have no adequate substitute proposal and are under heavy pressure to "do something."

As you perhaps recall, it seemed to me that one practical measure would be for the Reserve Banks to exercise their legal powers to buy bills in foreign markets, which would, of course, be tantamount to a foreign loan. Such a procedure would probably not be welcome unless the way was very carefully prepared for it, and Mr. Butterworth's suggestion was that the proposal might originate from the Farm Bloc or the Farm Federation themselves, as perhaps an alternative measure to the McNary-Haugen Bill. He would especially like to present some sort of proposal to Senator McKinley, of Illinois, who is much opposed to the Bill but in the embarrassing position of having little to offer as an alternative.

Can you see anything embarrassing in any way if such a proposal were to come from the farming influences and without any assistance whatever from the Reserve Banks? Personally it seems to me that it could be made an extremely popular idea, it would require no legislation whatever, but might need to go no farther than the introduction of a brief resolution by Senator McKinley or Senator Capper, or someone, proposing or urging or commending such a course.

This is suggested wholly and solely by Mr. Butterworth's appeal to me for any suggestion that he could make to his friends in Washington to stem the tide that seems setting in towards the support of this fantastic measure.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 19, 1924

TO Governor Strong

SUBJECT: Basil Miles' letter

FROM Mr. Snyder

Two years ago Hartley Withers gave me a letter to Mr. Robert Crozier Long, in Berlin, and I had a very pleasant visit with him and formed a very fine impression of the man. I think he has a quite unusual range of information and I shall be very glad to see what I can do with some of the papers in the line that you suggest.

^(Shy subject)
This part of the process of [5] 21
relief will take care of itself
as rates ease here, without
our speculating in Exchange
or promising things we
cannot deliver to the farm

OFFICE CORRESPONDENCE

DATE May 21, 1924TO Governor StrongSUBJECT: Purchases of Foreign BillsFROM Mr. Snyder

(1) It is perfectly true, as you say, that there has been a heavy curtailment of our wheat and grain exports, but there has also been a steady decline in our other exports so that, as a whole, our exports now are, as we estimate them, well below the line of normal growth.

This is almost wholly due to the reduced purchases of Europe, since our exports to other countries have grown steadily.

(2) If purchases of foreign bills were protected by forward purchases of exchange, dollar for dollar and date for date, would there be any possibility of any loss except from the cost of the forward purchase, that is to say, the insurance? According to one of the best experts in this field there would be no difficulty whatever in making these purchases of forward exchange up to perhaps as large amounts as we should ever think of dealing in, at least at the present time. This was the whole point of my memorandum to Mr. Jay; but perhaps there are other difficulties of which I am unaware.

(3) If the amount of commercial bills available abroad was not very large would not this suggest that even moderate purchases would be of considerable help and advantage to them? For example, considerable importance was attributed to the mere flotation of a five-million-dollar credit through Mr. Warburg's bank and the twenty-one associated with him.

Moreover, would it be necessary to restrict purchases to the London market? Sweden is practically back on the gold basis, and there is little reason why Switzerland, Holland and several other countries should not also resume.

I can't help thinking that cheap credits extended to some of these countries adjacent to Germany, Poland, etc., could be used by these solvent countries as a direct aid to the others in a very advantageous way and perhaps with much more ease and advantage than would be possible from direct dealings by us.

(4) I don't feel quite so sure that foreign credits would not help very considerably, even if the influence was indirect. For example, would it make any material difference whether the stimulus was indirect, e.g., whether, for example, Europe could buy more wheat of the Argentine or Canada or elsewhere? So far as the international price is concerned, would not this be exactly the equivalent to us of the actual buying of our wheat here?

(5) As you know, our gold imports this year are threatening to surpass all but war records. For the four months of the present year we received net imports of gold of 157 millions, as against 45 millions for the corresponding four months of last year. Except, of course, payments on

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OFFICE CORRESPONDENCE

DATE May 21, 1924TO Governor StrongSUBJECT: Purchases of Foreign BillsFROM Mr. Snyder

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the British debt and on other indebtedness, we are paying for this gold in goods. And of course our foreign customers, and especially those of Europe, are necessarily restricted in their purchases by a corresponding amount. Would not a wise policy seek to break up this vicious circle, since of course all this incoming gold is utterly of no use to us?

(6) We have, it is true, as you say, some overproduction of wheat, and this must naturally be corrected. But this is not the root of the difficulty of the farmers of this country, for their difficulty is that of the farmers of the whole world, via., reduced buying power on the part of the industrial population of Europe. I think you agree that the McNary-Haugen Bill is a foolish and useless measure, but it is evidently going to pass unless something is offered in its stead.

Now, does it not seem to you that it would be wiser to propose something that, so far as it went, could scarcely be otherwise than helpful and could apparently do little harm?

Thanks in part to the tactless methods of some of the interior bankers, the Federal Reserve System has incurred bitter criticism from the farmers, and the situation does not, as all of us had hoped, improve. On the contrary, in the recent weakening of commodity prices, food prices have been foremost. It is not merely the wheat grower, but the hog raiser and many others, who are securing less for their product than before the War.

Does it not seem to you that if we could do something, however slight, that it would be in every way advantageous?

I attach a memorandum from Prof. George F. Warren, of Cornell University, that you may be interested in looking over.

by G. F. Madden - Cornell -

THE MAJOR CAUSE OF THE AGRICULTURAL DEPRESSION

A number of minor causes contributed to the agricultural panic, but the major cause was the financial policy. I have found no historical records where the effects of inflation and deflation were not similar to the present experience. The present depression is the worst ever experienced in America, but no greater than would be expected following such rapid deflation.

I am not here mentioning the various good results of the financial policy. This is not to be interpreted ^{as meaning} that I do not recognize them. I think that the Federal Reserve System has a chance to develop into a much better thing than is generally realized. The very fact of its power for good makes any mistake far-reaching.

Mistake No. 1. Up to 1918, we could have had less inflation without hindering the progress of the war.

Mistake No. 2. After the armistice, a moderate deflation could have been brought about without serious consequences. It was expected and was largely discounted. Instead of following this policy, we continued to inflate. This secondary inflation was accompanied by the rise in land values, rise in prices of machinery and tools, and by the spread of the belief that deflation was never going to come. This together with the return of young men to farms led to an enormous increase in the number of purchases by young men who went heavily in debt. ^{This secondary inflation} / laid the foundation for the agricultural panic.

Mistake No. 3. Having gone wild on inflation, the policy of deflation was equally frantic. When things were going to rapidly it was not to be expected that changes in the discount rate would immediately be effective. In my judgment, the increases came at too late a date and when they arrived, were too rapid and too drastic. I have learned in driving an auto that when the momentum is great, it is preferable to apply the brakes gradually. They may seem to have little influence at first, but a steady pressure brings results.

Mistake No. 4. After having deflated so drastically, the pressure should have been relieved sooner and so have prevented a part of the last violence of the depression. This might have been done by lowering the discount rate or by a larger purchase of government securities.

Mistake No. 5. I think an equally serious mistake is being made to-day by assuming that a price level which represents such drastic deflation should be used as an ideal at which to stabilize. The financial policy is largely responsible for the building boom. There would have been considerable building in any event, but had wholesale prices stopped at 175 instead of 150 more of the income would have been required for food and the building boom would have been less violent. The movement from farms to cities would have been less so that fewer homes would have been needed in cities. This has gone so far that there is no way out that will not involve very great suffering. Apparently, most city persons are as blissfully ignorant of the real estate volcano as farmers were in 1920

Prices of food as sold by farmers showed a slight tendency toward improvement last year when the wholesale price level began to rise. They are now set back to the bottom again. The index of prices paid to farmers for ^{food} all products for April is 118. In only two months of the panic period has it been lower. To attempt to get labor, taxes, and other charges which are at the 200 level to come into adjustment with wholesale prices at a level of 150, and prices of food as sold by farmers at 118 is expecting too much. This could only be brought about by violent periods of unemployment and a violent smash in city real estate prices.

The disruptive forces set in motion by an attempt to hold wholesale prices at the present level are likely to result in Mistake No.6, that is, another period of inflation. Nothing will so surely bring inflation as a persistent attempt to deflate too rapidly.

We have gone too far in bringing about mal-adjustment to have any hope of an easy way out. I believe, however, that the soundest thing to do at any stage of the progress is to stabilize the situation as quickly as possible and for this purpose the following steps are necessary.

1. Find to what price level conditions are now most nearly adjusted.

This cannot be done by arguing - it must be done by extensive statistical studies. It should not be done for banks, or for cities, or for labor, or for farmers. All of these and other interests should be considered.

I believe that this is as little understood by bankers as by farmers. Bankers deal with things that have a very short

turnover. Farmers deal with things that have an exceedingly long turnover, about once in eight years. Each of them tends to think his philosophy is sound and that the other's philosophy is unsound. To properly answer the question, consideration should be given to the present wage level; pay of school teachers, and other public service; public and private debts; prices of commodities; prices of city homes; prices of farms; etc. The ideal result is the one that gives the smallest algebraic sum of injustice and economic confusion.

2. Determine the best means of adjusting to the price level determined in No. 1, and the best means of holding things at that level.

While you were lecturing, I noticed your suggestion that I was interested in the Mc Nary-Haugen Bill. This is not the case. I made no reply because there were too many other things to discuss. That bill is merely an attempt to tide matters over for a short time. My interests are in permanent policies. I am, however, led to the following conclusion concerning this bill, that if all of the efforts now being expended by city agencies for the defeat of this bill and the additional efforts exerted in the attempt to prove that there is nothing the matter with agriculture were expended in attempting to find solutions, we might make some progress.

We are following the policy of high tariff which favors city industries; the policy of immigration restriction which favors city labor; the policy of control of the gold supply which holds prices down. We have prevented the free movement of goods; prevented the free movement of labor; and are following a very

different policy with our gold supply than the policy that would be followed if the Federal Reserve Banks were operated for profit. In each case we are controlling either the supply or the demand. However, the farmer is told that the only way out for him is to let the law of supply and demand work without restriction, and that there is no solution except time, and that he is unsound if he asks for any solution. Personally I am in favor of the three restrictive policies mentioned in this paragraph. The world is in such a turmoil that I do not believe a laissez - faire policy should be adopted by this nation. If restrictive policies are to be followed the entire nation should be considered. I believe that the wise handling of our financial policy can furnish the basis for solving the agricultural problems but if handled unwisely we will be in danger of legislation that is really radical.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 23, 1924TO Governor StrongSUBJECT: Prof. Bullock's LetterFROM Mr. Snyder

Prof. Bullock's letter is very interesting. Dr. Burgess suggests that his meter limps a little. So also, as you will recall, did their index last year.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 26, 194

Governor Strong

SUBJECT: German Bank DirectorFROM Mr. Snyder

As to the American member on the Council of the new German bank:

I should think that by far the ablest and most experienced man that could be named would be Mr. George E. Roberts. He has both banking experience and high standing as an economist, and the clearest understanding of the problems that would face the new German bank. If he could be induced to consider it, his seems to me the foremost name.

If not, how about Dr. Miller? He is of German origin and his experience with the Board should be highly valuable in such a position.

If neither of these, Mr. Rovensky would be a very able, energetic and reliable man, but I doubt very much if he could be induced to leave his present position.

Another name that comes to mind is Mr. F. A. Delano, formerly of the Federal Reserve Board.

And there is Mr. J. S. Alexander, who might possibly consider it.

Is there any serious objection to an academic man? It would be hard to find an abler or more experienced man for such a position that Prof. Kemmerer or Wesley C. Mitchell.

OFFICE CORRESPONDENCE

DATE May 26, 1924

Governor Strong

SUBJECT: Foreign Financial Advisers

FROM Mr. Snyder

As to the Austrian and Hungarian positions:

Undoubtedly the ablest and most experienced American in this field is Prof. Kemmerer. His standing is, of course, of the highest, and he has had a range of experience that no one else has had. In all his dealings he has shown himself not merely a very able organizer but an adroit and suave negotiator, and, I think, universally popular. When we have anyone of first rate ability it seems to me it would be a great pity to pass such a person by, as is usually the case when it comes to any kind of Government appointment.

Dr. Chandler was on the American Commission in Mexico with Prof. Kemmerer, has spent a great deal of time in recent years in studying European conditions, has a wide acquaintance over there with economists and bankers, is sound and clear-sighted in his views and has now had four years of commercial contacts; he earned his way through college and has had an all-around experience. It would be hard to find anyone better qualified.

Dr. Stewart has had a more academic career so far, but he comes from the West; he has a cool head and many of the qualifications that, it seems to me, are absolutely necessary for such a post, if it is not to be a failure.

Dr. Foster has been a successful college president, after a long experience in Bowdoin and Harvard, is an administrator and a negotiator, and equally has the right qualifications of clear financial understanding.

Another very able man is Prof. J. H. Rogers, formerly of Cornell, now of the University of Missouri. He was trained abroad, has a wide acquaintance with European economists, bankers and others, has the advantage of a first-hand knowledge of conditions and a mind of crystal clarity. With his highly reserved personality he has not made the impress that his real ability and the unusual incisiveness of his mental processes should command. Compared with some of the bags of wind from whom you have had correspondence, he is a piece of cold-chilled steel. He is well worth considering.

John Williams is a very capable and competent person, but his views upon the effect of paper money issues is essentially that of all the defenders of the German and other inflationary policies, and it seems to me that it would be very unfortunate to put anyone in such a place as that who had any tendency to wobble upon this point, because the pressure that will be brought to bear by the inflationists will be very heavy in every way.

I have mentioned only academic names so far, for the reason that it is rather hard to find bankers or business men who have given these questions serious attention, and whose instincts and impulses are usually in the direction

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OFFICE CORRESPONDENCE

DATE May 26, 1924Governor StrongSUBJECT: Foreign Financial AdvisersFROM Mr. Snyder2

of the easy road, which, it seems to me, is precisely not the road that these two countries can follow now.

Two very able men in the Bank of Commerce are Mr. Rovensky and Mr. Broderick, either of whom has high qualifications. Mr. Broderick has specialized in the foreign exchange field, and Mr. Rovensky, as you know, is a quite unusual type of banker. But would it not be wiser to consider these two for the other position?

FEDERAL RESERVE BANK
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OFFICE CORRESPONDENCE

DATE May 26, 1924TO Governor StrongSUBJECT: Exchange charts, etc.FROM Mr. Snyder

Special.

Your call for charts comes in the midst of closing up for the Monthly Review and the Business Summary, and some extra charts for Mr. Jay. May I ask how far the enclosed will answer your purpose and just what is most essential to add:

1. Gold statement is attached herewith.
 2. I attach chart of exchange rates for five countries, from 1914 to date, and charts for all the other principal countries into 1921.
 - Q. Shall we try to bring all these latter up to date?
 3. Fluctuations of exchange under the gold standard before the War were, of course, within the "gold points," i.e., in variations of under 1 per cent, which is not representable on charts giving post-war fluctuations, i.e., it would be just a straight line. This could be just indicated on the "par" line as "pre-war average fluctuations." See charts in book enclosed.
 4. The mathematical formula used by Mr. Keynes for purchasing power parities is on page 106 ff. of his "Monetary Reform," which I believe you have. This is, of course, taken directly from Cassel and credit is due to the latter and not to Mr. Keynes.
 5. It is extremely difficult to show conclusively this p. p. p. relation by means of any existing indexes, so far as we have found, as is evident from the attached chart showing this for England, France and Italy.
- You will note that in the case of England the price index ratios for more than a year were above par, but the exchange did not follow, i.e., there seemed to be other forces at work, which I call bill pressure, for lack of a better word.
6. I attach charts for six countries carried only into 1922. Will you please look at these and see if any will serve your purpose?

We can have the three photostats
of these ready Wednesday
morning, if you will advise us
tomorrow morning.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 27, 1924TO Governor StrongSUBJECT: Conditions in IowaFROM Mr. Snyder

I am sure you will be interested in a rather remarkable letter which Mr. George E. Roberts has received from a friend of his in Iowa. I imagine it paints the picture rather black, but it is none the less an interesting view.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 27, 1924TO Governor StrongSUBJECT: The Dawes Committee ReportFROM Mr. Snyder

This seems to me as intelligent a criticism of the Dawes report
as I have seen.

I dont agree with Dr. L.

FOREIGN

GERMANY - The gold note-bank, Alfred Lansburgh
Die Bank, May 1924, pp. 294-5

The aim of the Dawes Committee, to establish a unified and permanently stable currency for Germany, corresponds not only to the desire of Germany's reparations creditors, but also to the national interest of Germany. Unfortunately, however, the proposals drawn up by the experts are not adapted to guarantee the attainment of this aim. The experts have prescribed only 33 1/3 per cent. gold cover for the note circulation, and there is no provision against depreciation with a progressive increase of the circulation, in case of an increase in the reserve. A 12 per cent. cover for deposits is specified, to be sure, but neither of these covers is absolutely compulsory.

In reckoning with the danger, even though "minimal," of a new inflation, the experts are not fulfilling the task to which they were assigned, for they were to plan for the organization of a gold note-bank in which any depreciation of the value of the new currency, however slight, is out of the question. Only by guaranteeing an absolutely stable currency is there justification for requiring Germany to give up her autonomy, to put the bank under the control of a foreign commissioner and to provide for the transportation of her metallic stock and note printing to a neutral country. An admission of the fact that there is no guarantee of a currency really equivalent to gold and of lasting exchange stability, is, furthermore, to be found in the section of the Dawes report discussing the danger to the exchange value of the new currency in the removal to the creditor countries of reparations funds collected in Germany. In a country with a real gold currency, there is absolutely no such danger. In considering injurious reactions, the Dawes Committee admits that even its proposals will not provide Germany with the promised gold currency, but with only a temporary arrangement once more.

GREAT BRITAIN - The return to the gold standard
Economist, May 3, 1924, p. 908

Sir Felix Schuster in a recent speech expressed the opinion that the £ sterling may return to parity with the dollar before very long. He believes that currency notes should now be transferred to the Bank of England, and licenses for the export of gold granted more readily until the free movement of gold is restored. No great demands for gold could be made upon Great Britain by any country except the United States. "The cordial and confidential relations which are known to exist between the Bank of England and the Federal Reserve Board could be depended upon to work in such a way as to prevent movements that might be injurious to either country." The recent trend in exchange has been largely due to the movements of capital. This condition is likely to continue as the £ sterling approaches par, owing to the larger return upon capital in the United States. The reduction in the rediscount rate to 4 per cent. is a step in the direction hoped for by Sir Felix Schuster, since it will tend to equalize interest rates in the two countries.

FEDERAL RESERVE BANK
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OFFICE CORRESPONDENCE

DATE May 28, 1924

TO Governor Strong

SUBJECT: Rate Programme

FROM Mr. Snyder

With reference to the programme you outlined the other morning it seems to me that present tendencies should be pretty carefully considered.

(1) The dark wave of pessimism, you remember, rolled in in the early part of March. March saw some recession in business from the unseasonably high point reached in February, and our index of the Volume of Trade came down from 111 to 104.

The average for the quarter was 107.

In spite of all the continued gloomy talk and gloomy predictions, the recession apparently did not continue in April, save in a few notable lines like, especially, steel and iron. Our index for April will be about 103.

(2) The stock market, which is supposed to anticipate business movements, but which seems generally to run pretty well with them, equally shows no evidence of an impending slump. The averages, just like our Volume of Trade index, came off somewhat from the sharp little run up in February, but the decline amounted to only about 7 points for the industrials and practically nothing for the rails. Both rails and stocks are still well above the low point reached last July.

(3) The same way with brokers' loans. They have shown only a very slight decline from the high point reached in March and are now about half way between the record point of April of last year and the low point of last November.

(4) The same way with commodity prices. As you have doubtless noticed, there has been some decline from the high point in February, but our average of 20 basic is still well above the low point of last July (see Business Summary).

(5) The same way with the banking situation. The statement for National Banks for March 30 showed loans and discounts at a peak since 1921. Demand deposits ran off a little from the figure of December 30, and so did total deposits, very slightly; but both are now practically at a record point, and higher than at any time in 1920.

In the Reporting Member Banks total loans are at a peak since 1921, and demand deposits last week made a new high for the year. The only declines evident in the banking field are in the Federal Reserve Banks, not in the commercial banks.

FEDERAL RESERVE BANK
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OFFICE CORRESPONDENCE

DATE May 28, 1924TO Governor StrongSUBJECT: Rate ProgrammeFROM Mr. Snyder

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(6) In the general business situation we have, of course, a continuance of the building boom, and that in the minds of some spells sure-fire disaster. But we had a large deficit to make up, running back five years, and with the enormously high wages being paid and full employment I see no reason for anything more than a steady easing off as the demand abates.

We have had some slump in steel and iron, but even at that, if you have noted our index of Production, you will see that both March and April for pig iron were above the computed normal and the average in steel for the two months the same.

There has been a sharp cut in automobile production, but this was largely part of the programme to stock up heavily in the winter. For the first three months of the year General Motors sales were less than 3 per cent below a year ago, which does not indicate any very serious depression there, in spite of all the wild and foolish talk.

^{WE} Bank clearings outside of New York City, an excellent index, was, as I have estimated, about 3 per cent above normal for April, and that meant about 6 per cent for the first four months of the year.

We have had a boom in some lines but a quite notable depression in others, as in textiles, leather goods, hides, etc., to say nothing of the very serious and persistent depression among the grain farmers and livestock raisers. This, I regret to say, shows no improvement, and this will have its political effect.

(7) To sum up then, we have had some little decline from February, just as we had a little run off from the high peak of business in March of last year, but this year as last year business was at high tide and running steadily above normal and not below. This is a definite and incontestable fact, and yet you would imagine, from listening to nine-tenths of the business men, that business was poor.

They seem utterly unable to discriminate in their minds between profits and volume of business and production.

(8) Our index of the General Price Level stood in April at 180, a decline of 4 points or about 2 per cent from the high point reached last October. This compares with a low point of 166 reached in 1922. This is a weighted average of all kinds of prices, wages, rents, etc. It represents the only accurate measure we have of the purchasing power of gold; and now stands at only about 15 per cent below the average for 1920, and is at practically the same level as when the Armistice was declared.

FEDERAL RESERVE BANK
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OFFICE CORRESPONDENCE

DATE May 28, 1924To Governor StrongSUBJECT: Rate ProgrammeFROM Mr. Snyder

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We have been very much misled in our judgment of prices by taking commodity prices at wholesale as a measure, since these have been heavily depressed by the extreme depression in farm prices and certain commodities like copper, rubber, hides and leather.

(9) It is, as I tried to point out in my memorandum yesterday, apparently a mistake to believe that the general run of prices in Great Britain is lower than in the United States, relative to pre-war conditions, save from the point of view of unduly depressed exchange. So far as the index figures will indicate, commodity prices, wages, the cost of living, etc., in England, are now at about the same point, relative to 1913, as are these prices in the United States.

Theoretically, then, on the purchasing power parity, sterling exchange should be at or even slightly above par. Apparently it is the necessity of exchange payments and not the relative level of prices which is the present cause of the depreciation of sterling.

If export prices in England are something like 90 per cent of the pre-war level, in the face of the fact that the average price of their imports is only about 50 per cent and the factory wage level is correspondingly high, does not this suggest, as you remember a correspondent in the Economist (see Economist, December 1, 1923, p. 973) pointed out, that the real cause of the depression in England is the high level of wages and the high cost of their exported products?

Forcing a higher General Price Level in the United States might help sterling towards recovery, but our experience is that in inflation commodity prices at wholesale rise more rapidly at first than other prices, and as the cost of raw materials in Great Britain is heavily influenced by the price in the United States of raw materials, would this not carry up English commodity prices at wholesale in about the same way?

And would not this have a tendency seriously to curtail our export trade, which is already in a depressed condition and much below the normal level of growth?

(10) To change our present condition of high prosperity to a boom might require very little pressure. Our experience in 1919-'20 was that the demand for credit rose very rapidly. We know the difficulties of an adequate restraining rediscount rate. If there were a prospect of large credit expansion would it not be the part of wisdom to have a large investment fund on hand, possibly on the order of 700 or 800 millions, if not more; and would it not now be difficult to acquire such large holdings without precipitating a stock market boom?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 27, 1924To Governor StrongSUBJECT: British and American PriceFROM Mr. SnyderLevels

As to the present position of price levels in Great Britain and the United States:

It seems to me extremely difficult to make a very accurate and trustworthy comparison. There is no index of the general price level for Great Britain similar to the one we have compiled for this country.

But we find that the index for the average cost of living comes very close to this general average, as a rule, and, taken on a pre-war base, this index for the two countries is apparently somewhere near the same. For this country the computation made by the Industrial Conference Board differs a little from the Government averages. But there is no wide disparity.

The Federal Reserve Board tries to compute relative prices on a gold basis, and you will see that, dividing the price indexes by the current rates of exchange, the two levels are now very close together (F. R. B. Bulletin, May, p. 433).

On the next page you will see, also, that the F. R. B. indexes of export prices are likewise not very far from our own, that is, between 80 and 90 per cent above the pre-war level. I do not know how good these indexes are, and have just started a little inquiry into this question.

As to wages, Prof. Bowley computes a composite index at about 75 per cent above pre-war levels, but this is rather heavily weighted by ship builders and agricultural laborers, and if our weighted index was made up on the same basis I doubt if it would be very much higher.

In a word, the available evidence seems to be that, relatively, the general run of prices--commodity prices, wages, cost of living, etc.--have risen about the same in percentages in England as in the United States. Now, you may say that if British exchange is depreciated by, say, 11 per cent, then, speaking very roughly, measured in gold ~~the prevailing level of prices in England was 11 per cent below that of the United States, relative to the pre-war relations.~~ the prevailing level of prices in England was 11 per cent below that of the United States, relative to the pre-war relations.

But a good part of this difference, it would seem, is due to what I call bill pressure, the pressure of payments, and therefore you might say that, at the present time, British exchange on the United States is artificially depressed, and does not represent any true difference between price levels.

I am having our Library files searched for anything illuminating on this question, but personally I have not seen anything with very much sense to it on this subject; so I have ventured to give you the available facts as far as I can.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 28, 1924.

TO Governor Strong

SUBJECT: English and American Prices.

FROM Mr. Snyder

*Notes
PS*

If you think that my presentation of the subject was incorrect, please note a very careful article upon the question in the attached number of the Economist, evidently written by Mr. ^{Leighton} *Layton* or some expert upon these matters.

reconciling

You will see that this writer has the same difficulty in recognizing price index ratios and the actual exchange rates that anyone will find who examines into the question carefully. There are all sorts of anomalies. For example, as you probably know, wheat is today selling in Liverpool at about the same price as in New York, despite a normal spread of about 26 cents on freight rates.

*in gold!
in currency prices.*

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 2, 1924

TO: Governor Strong
FROM: Mr. Snyder

SUBJECT: Buying of Labor Saving Machinery

*That is adequate Statement, and
I don't agree with him. Such developments
are continuous, & not spasmodic*

PS.

Attached is an extremely interesting note on conditions in the machine-tool industry. It contrasts rather sharply with Mr. Woolley's idea that there has been an unusual amount of new labor-saving machinery introduced in the last few years. But without the latter it seems very difficult to explain the apparent increase in factory production per man which seems suggested by the comparison of factory production and the amount of factory employment.

Another instance of how difficult it is to make an accurate generalization anywhere.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 5, 1924TO Governor StrongSUBJECT: Mr. Robert Crozier LongFROM Mr. Snyder

I have been able to make little headway in finding anything for Mr. Robert Crozier Long. He writes, or did write, for the Journal of Commerce, and for a time was Berlin correspondent of the Standard Statistics Company; also for a time for the Evening Post. Mr. Franz Schneider, of the Evening Post, is considering the matter, and also the Tribune.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 6, 1924

TO Governor Strong

SUBJECT: "Economist" of May 24, 1924

FROM Mr. Snyder

An interesting article by Robert Crozier Long.

*Read by
RS.*

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 16, 1924To Governor StrongSUBJECT: Economist of June 7, 1924FROM Mr. Snyder

This seems to me an extremely interesting sidelight on German industrial conditions in and since the War.

Does this replace the hard coal
from Ruhr sent to France
or al. ? DS.

3251

June 16, 1924

My dear Moulton:

Just as bearing upon the course of industrial production and industrial development in Germany since the beginning of the War, may I draw your attention, if you have not noted it, to the article in the Economist of June 7, page 1150, on "The Development of Electrical Power in Germany?"

This shows that electrical installations from 1913 to 1922 had doubled and the total of electrical production tripled, and according to this account this did not include a number of very large works which did not come into production before last year.

As these figures are from a German I presume they may be taken as official, since they agree substantially with other published figures on the subject.

Does this seem to you to tally with the picture of a Germany whose industrial production has been reduced by a half or even a quarter in these years? Personally I find it very hard to reconcile these and other figures of the same tenor with such a view.

With very best regards,

Always yours,

Harold G. Moulton, Esq.,
Director, Institute of Economics,
26 Jackson Place,
Washington, D. C.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 16, 1924TO Governor StrongSUBJECT: Letter for the Anniversary NumberFROM Mr. Snyderof the Japanese-American

Would you like to add to the letter, after the first full paragraph on page 2, the following, which I have just turned up this morning:

"An interesting sidelight upon this quite astonishing development is that Japan is now third among the nations of the earth in the amount of electricity consumed, exceeding in this regard even such large countries as Great Britain and France, and surpassed only by the United States and Germany."

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 23, 1924TO Governor Strong

SUBJECT: _____

FROM Mr. Snyder

I have had a number of letters and questions very similar to the attached, not about this Whaley-Eaten stuff, but the supposed new policy.

I'd rather like to have a word with you as to just what should be the tenor of a reply.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 24, 192 4TO Governor StrongSUBJECT: Remarks on "Monetary Reform"FROM Mr. Snyder

3207

You will be entertained by the observations of Prof. Cannan--
he is always amusing--and Sir Charles, who can never say die.

Also, by the naïve beliefs expressed by Mr. Keynes, and still
more notably by Mr. Hawtrey here and in his review of Keynes' book, ^(p. 227) that
there is on this side of the water an august body with a clear and definite
program, boldly carried out, and in full control of credit expansion, price
levels, and other fortunes of the nation.

READ AND NOTED,
B. S.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 26, 1924TO Mr. JaySUBJECT: Index Figures of Volume of TradeFROM Mr. Snyder

We have a steadily increasing number of requests similar to this, and it is becoming a real burden to reply to them all.

We publish in the Monthly Review regularly some fifty odd different indexes, computed in terms of normal, a considerable part of these now for a number of years. Do you think there would be any serious objection if without further ado or even specific mention of it, we simply added to our fifty odd indexes the composite number for the Volume of Trade? Only the scant few who are interested in such matters would ever notice it, or even know what it meant, and it would save us a great deal of trouble.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 26, 1924TO Governor StrongSUBJECT: British and American paritiesFROM Mr. Snyder

Since none of the ratios of indexes of prices between this country and Great Britain yield a continuously ^{consistent} ~~constant~~ comparison with the actual course of sterling exchange, and as you did not feel very well satisfied with the results so far obtained, we have undertaken the construction of a new index of the General Price Level of Great Britain on exactly the same lines as our new index for the United States--that is, a weighted composite of all kinds of prices, including commodities, wages, rents, and the elements of the cost of living, or, if you prefer, the average of all kinds of payments.

This is in the hope that comparison of this with our United States index may yield more satisfactory results.

(In a few days.)

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 27, 1924TO Governor StrongSUBJECT: Prediction of Business RecoveryFROM Mr. Snyder

At our Business Luncheon today Colonel Ayres predicted very definitely that the slump would last until late in the year, and, as he put it, that the turn might come about Election Day, with a very slow recovery and business not back to normal before the middle of next year.

Arguing from past performance, this would suggest a political overturn, that is, in most cases where the election takes place in a severe slump, with falling prices, the Administration changes.

But personally I doubt very much the continuance of the slump.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 27, 1924TO Governor StrongSUBJECT: Pictures in the LibraryFROM Mr. Snyder

When we laid plans for the new Library of the Bank, we thought it might be a real embellishment if we could obtain some interesting pictures of bankers, economists and others. So three years ago, when I was in London, I raided the second-hand shops and bought quite a collection, and at astonishingly small expense, of old prints, caricatures, etc., of former Governors of the Bank of England, of Adam Smith, Ricardo, and the like, adding to a collection I had previously made myself. Many of these cost only a sixpence or a shilling, possibly, but I think are well worth framing.

But I now find that there is an order against any wall decorations. Do you wish this to hold against pictures in the Library? We had thought, also, to put up quite a collection of our chart pictures, and the like, so that it might be rather a show place for visitors when they came.

The expense of this would, of course, be extremely slight.

Dec 27 - Jan 5-27-24

OFFICE CORRESPONDENCE

DATE [abt 5-27-24?] 192

TO Gov. StrongSUBJECT: Bullock's letter.FROM A.

One thing in Bullock's letter disturbed me. That was his crass suggestion that you had purposely invited some of the best known economists in the country with the intent to give them "a well-deserved spanking."

If the blundering idiot is diffusing this notion, it seems to me it would be most unfortunate for future relations, all round.

Would not a very definite note to Mr. B. be advisable?

— Have you Balzac's superstition about proper names? — I have, somewhat. Especially in a China shop!

FEDERAL RESERVE BANK
OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TIME _____

A. M.
P. M.

DATE _____

TO _____

Mr. Jay. Mr. Snyder

DEPARTMENT
DIVISION
SECTION

REMARKS _____

Never an answer

from either. Of

FROM _____

DEPARTMENT
DIVISION
SECTION

NOTE: USE THIS FORM INSTEAD OF OFFICE ENVELOPE WHEN POSSIBLE.

FOR PROMPT AND ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 30, 1924TO Governor StrongSUBJECT: New InvestigationsFROM Mr. Snyder

When Dr. Stewart was over here last time, in May, he renewed his urgings that we undertake more detailed studies of the New York money market, the movement of funds, etc., but had no definite proposals at the time.

I wrote about this after his visit, also the attached.

No answer from either letter.

Letters of May 9 + May 28

*Statements +
Reports Files?*

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 30, 1924TO Governor StrongSUBJECT: Memo. from Mr. HooverFROM Mr. Snyder

It is very reassuring that you think this sort of stuff is just a "bawl." That is just what it seems to me.

There is undoubtedly a rather sharp recession in a number of lines of industry, just about like there was last year. Our bank clearings for June, with four days estimated, indicate something like 4 per cent below the normal rate of growth. But I have an impression that this will not last long and that July or August will show a marked improvement.

As for Europe, it seems to me that it is plugging along in the face of great difficulties, and slowly improving.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 30, 1924TO Governor StrongSUBJECT: British PricesFROM Mr. Snyder

You will be interested, I think, in this plotting of the course of prices, wages, and the cost of living in Great Britain.

According to these figures there has been a wholesale deflation of wages as well as of prices over there, so that on a 1913 base their wholesale price and wage levels are pretty close together. Which might be interpreted to mean that actually there is a better balance of price levels in Great Britain at the present time than in the United States.

The red line is the computed general price level or average of all kinds of payments, made up in exactly the same way as the same index for this country.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 30, 1924

TO Governor Strong

SUBJECT: Sterling and P. P. P.

FROM Mr. Snyder

The attempt to work out a theoretical value for sterling, from a comparison of price indexes, has not been a success. In the past three years we have tried out several combinations, and one of them worked beautifully for a good long stretch. Then came the divergence which I pointed out some weeks ago.

Here are two new ones:

The chain line is the comparison between our Bureau of Labor index and the new Board of Trade index for Great Britain. These are quite distinctly the two best indexes of commodity prices at wholesale in their respective countries.

You will note that, from the end of 1919 to the middle of 1922, this line crosses and recrosses the sterling exchange line repeatedly. Then, like all the rest, they took a wide swing apart, and only made a near approach again last summer.

The solid line is a comparison of two indexes of the average purchasing power of the two currencies. That for the United States we had worked out for quite another purpose, and, having done this and determined the needful constituents, we found that it was a very easy job to make a similar computation for Great Britain.

Prof. Bowley had made a carefully weighted composite index of wages in Great Britain, and the other indexes for wholesale prices, cost of living, and rents were at hand.

You will note that this comparison shows wider divergencies from the actual course of sterling than the ratio between prices at wholesale. I may add that I know of half a dozen other attempts in this country, and two or three abroad, to solve this problem, all with equally little success.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 30, 1924

TO Governor Strong

SUBJECT: Expenses of this Department

FROM Mr. Snyder

I have been very much disturbed by the statement reported by Mr. Jay, as made to you in Washington, that our Index of Trade had cost something like \$75,000 (if this was correctly the statement). Dr. Burgess has gone over the records and estimates the actual cost at around \$15,000 at the outside. Personally I think this figure is much too high.

Our Index of Trade was the outgrowth of some incidental work on a monthly Index of Production, undertaken at a time when nothing of this sort existed. When Dr. Stewart became Director of the Research Division he at once began the preparation of such an index, utilizing, as I understand it, some of our material.

The actual composite Index of Trade has not taken the full time of more than three or four people, and has been done incidentally to other work in the Department. I believe it will come to be recognized and accepted as the first really reliable and accurate measure of trade, and therefore of the real credit needs of the country that has ever been compiled, and may prove in time of need worth many, many times its cost.

If, for example, we had had such an index as this in the summer of 1919, with five years or more of experience behind it, as we now have, it might not have been so difficult to prove that the great rise of prices which then began was pure inflation and not the result of business expansion.

May I add this:

Both in number of employees and in its total expense this Department represents less than 1.9 per cent of the total expense of the bank.

Mr. Morgan's computation was that the Research Department, entire, takes about one-sixth of this, or .3 of 1 per cent.

In other words, if the entire division was abolished it would mean that, in the total number of employees or the total expense of the Bank, something more than 99.7 per cent would still remain.

The continued criticism of our expenditure from Washington is discouraging and can, I believe, have but a single object.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 1, 1924TO Governor StrongSUBJECT: Increase in New York DepositsFROM Mr. Snyder

In trying to get at the sources of the extraordinary increase in deposits in New York banks in the last four or five weeks, I thought it would be of interest to sample several of the interior districts.

As you will see by the attached, in the last three months Chicago gained a little, and the Atlanta, Minneapolis and Kansas City districts lost a little.

In the same period the total of outside bank balances and outside bank loans to this market has varied little.

In other words, the gain here does not seem to have been at the expense of the rest of the country.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 1, 1924

TO Governor Strong

SUBJECT: John R. Commons

FROM Mr. Snyder

I am glad you will have a little talk with Prof. Commons. He is, as Wesley Mitchell said, a very unusual and remarkable person. He has probably had a wider practical experience with legislators and the framing of legislation and working with committees, etc., than almost any other American. And his department of Economics in Wisconsin University has sixty-two professors and instructors and some four thousand students enrolled annually.

He knows the West, and his point, in a nutshell, is this:

The mass of the people in the West believe that the Federal Reserve Board and Bank were at least the chief active agents in the deflation which cost them so dearly. That it is hopeless to try to dissipate or eradicate this belief. Only one way he thinks to meet the issue. That is to put it squarely to them: "Do you want another period of inflation, or do you want stability?"

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 2, 192⁴TO Governor StrongSUBJECT: Calculating P. P. P'sFROM Mr. Snyder

I quite concur in your exposition of the problem. But the further difficulty is that just those goods which are actively traded in between two countries will have in general, and barring obvious exceptions, practically the same gold price, i.e., the price in one country will correspond almost exactly to the exchange rate, e.g., the price of cotton in Liverpool.

It seems to me the general theory, that the average and long-time exchange rate between two countries must be a ratio between the average internal purchasing power of their respective countries, is sound. But I doubt very much if we can get much further than we have already in demonstrating it by index numbers.

But, so far as it goes, it seems to me that the evidence is that sterling, for a year or more, has been unduly depressed, and really feels the effects of the very heavy gold payments.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 3, 1924TO Governor StrongSUBJECT: Out-of-town Balances Before 1919FROM Mr. Snyder

The best barometric figure for out-of-town balances back of 1919 we have is the due-to-other-banks account in the National Bank calls. Those for New York City shown herewith.

You will note that, after the heavy jump in 1915, there has been a pretty steady secular decline, and the variations from this do not seem of great significance.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 3, 1924

TO Governor Strong

SUBJECT: Display of Large Wall Charts

FROM Mr. Snyder

In the last four years we have made scores of large wall charts for addresses by Mr. Jay and others, and some of these are very striking and interesting. They represent a quite remarkable range, (and I think would disabuse your mind of the idea that we have devoted any special attention to price movements, etc., although such charts have been among those most often called for by the officers.)

One of my thoughts about the new library was that we might make a big display of these, on the walls, perhaps twenty or thirty of them, that could be brought up to date from time to time, when pressure slackened a little, although it seldom does.

I believe that these would give visitors a fine idea of the range of inquiry and information at the disposal of the officers and directors of the bank, and especially might be very impressive to any whilom critics of expenditure in this department.

Would this meet with your approval?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 3, 1924

TO Governor Strong

SUBJECT: Interdistrict Movement of Funds,

FROM Mr. Snyder

etc.

The material for a detailed study of the New York money market and the movement of funds to and from the outside is rather scant, and not much of it extends back of 1919. Most all of this material has, of course, been charted continuously from the time this department was organized. The attached chart brings out the most salient features.

The first thing you will note is how steady have been the demand deposits, and to a considerable extent also the total of loans and rediscounts, of New York City banks within the last five very tumultuous years. From a straight average for the whole period the demand deposits have varied scarcely more than 10 per cent.

This is the more remarkable in view of the fact that the investment account has varied quite widely, both down and up.

The variations in out-of-town bank balances have, as you will see, likewise varied but little, ranging around a hundred millions above or below the average. In other words, a kind of gold exchange fund kept at a fairly constant level.

Out-of-town street loans, like local bank street loans, vary more widely, but swing largely with the demands of the Stock Exchange and not, apparently, with the interest rate. For example, through 1920, while the interest rate was rising to the highest points known in the last fifty years, street loans were steadily falling.

Out-of-town street loans fell less rapidly than local street loans, so that the stringency which developed could hardly be regarded as the withdrawal of outside funds.

Perhaps the most striking fact of all is that the interest rates in New York should have varied so enormously within this period, while the actual amount of demand deposits varied so little.

And unless we imagine that large amounts of unreported outside funds flow in and out of the New York market, then must we conclude that the remarkable rise and fall of interest rates was due to the varying pressure of demand, against a nearly inelastic supply?

And, theoretically, the supply was highly elastic.

I should be very much indebted for any suggestions for further inquiries

As to our studies of price movements and the like, I can assure you that these have formed but a slender part of the total of our work.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 10, 1924TO Governor StrongSUBJECT: Cost of our Indexes, etc.FROM Mr. Snyder

Dr. Burgess and I went over to Washington Tuesday, at Mr. Jay's suggestion, and I had a chance to have a very agreeable talk with Stewart about the remark he made to you about the cost of our indexes of Trade, Production, etc. He says that his estimate was "from \$50,000 to \$75,000," but I found that this was almost purely a guess from the cost of some work in his own department.

I tried to show him that we had never had more than three or four people engaged upon this work, and these not continuously, and that I doubted if the actual cost at the outside could have been over \$12,000 or \$15,000, or much less than one-third of his lower estimate.

I explained to him that a good deal of the computation had been done in the Tabulation Division when they happened to have slack time, so that this part of the work really cost nothing.

I would also like to point out that this would include the cost, not of one index of Trade, but of three separate and distinct indexes independently calculated and yielding practically the same results.

I doubt if all this work has ever run to as much as 10 per cent of the annual expenditures of this department, and, as I pointed out to you, the total of our expenditures now represent about 1.8 per cent of the total expenditures of this Bank.

FEDERAL RESERVE BANK
OF NEW YORK

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 11, 1924

To Governor Strong

SUBJECT: The Rapid Expansion of Deposits

FROM Mr. Snyder

Perhaps the very rapid expansion of Reporting Member Bank deposits in the last four months may be very easily explained, and if so it is extremely interesting. The situation is this:

The low point for the year in these banks' deposits was about the first week of March. Since then demand deposits have expanded, to July 2, by about 820 millions, and time deposits by about 220 millions, which with Government deposits practically unchanged yielded an increase of deposits in these banks of around 1040 millions.

In the same period total loans and discounts increased by 216 millions, total investments by about 554, or a total of loans and investments of about 670 millions.

In the same period reserve balances with the Federal Reserve Banks increased by 110 millions, and as the cash in banks changed but little this meant a total expansion of around 780 millions.

This leaves about 260 millions to account for.

In this period net imports of gold amounted to about 140 millions, and we also know that from the end of February to the end of May deposits in Member Banks in the smaller towns, under 5,000 population, declined by about 100 millions. As the Member Banks represent nearly three-fourths of the total resources of the country, we may imagine therefore that the total gain to the weekly Reporting Banks from the smaller banks of the whole country might possibly have been on the order of, say, another 140 million dollars.

We also know definitely that some of the larger banks in New York City have very substantially increased their foreign deposits since the first of the year, one of them by 50 per cent. This conceivably might easily total 100 millions or more.

These three sources would suffice to explain the balance of 260 millions indicated above, even after a reduction of about 72 million dollars in the total earning assets of the Federal Reserve Bank in the same period.

But this of course does not explain the source of the funds nor the increase in loans and investments. As these could not have been derived from the smaller banks of the country by withdrawals, nor, in any probability, from increased foreign balances, we are left to the supposition that they were built up by the banks themselves on the strength of their excess reserves at the Federal Reserve.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 11, 1924

TO Governor Strong

SUBJECT: The Rapid Expansion of Deposits

FROM Mr. Snyder

2

If there were no demand for new currency, and in this period there was little change, and this excess amounted to as much as 100 million dollars, over the amount required in March, this amount with the Weekly Reporting Banks would expand their loans or investments by, roughly, about 900 millions, or considerably more than the actual expansion.

Now, in the old days the banks were largely left to the whim of customers, as to whether they could expand their loans quickly or not. Heavy purchases of investments were not the rule. Now, we have had in this period relatively small increases of loans, and these chiefly with stocks and bonds as collateral, and a very heavy increase in investments.

In other words, the expansion now is largely under the arbitrary control of the banks themselves, and practically without recourse to the Federal Reserve Banks. The other thing of interest is that in this same period the amounts reported from these banks as "all other loans," i.e., the so-called commercial loans, declined slightly. Business generally was undergoing a slight recession and not an expansion. In other words, this heavy expansion of bank deposits took place without any increased demand for commercial loans whatever, and in the face of a general tendency to curtail credit commitments. It is not the less interesting that this was a possibility which has for some time been foreseen.

I am wondering if this is not part of the explanation of the considerable degree of stability in business which we have had in the last two and a half years. The steady inflow of gold, in cooperation with the possibilities of elastic expansion under the Federal Reserve System, had brought it about that the credit movement may be at times temporarily against the general business movement, which in the case of the decline of the latter means a kind of automatic resistance, leading to a rather ready reversal of the business trend. If this is the fact it would give additional support to the idea entertained by many that such a reversal might now soon appear again.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 15, 1924

TO Governor Strong

SUBJECT: The Increase in Deposits

FROM Mr. Snyder

Part of your suggestions as to a possible inquiry had been covered in the memo. I showed you yesterday, copy of which, with corrected chart, is attached herewith.

A less successful attempt to show the same thing is also attached (they did not keep to the same scale).

I see no further light on the rapid increase in deposits in the first half of this year, save possibly in the unusually heavy gold imports. These gold imports for the six months reached a net of 222 millions, or very close to double the amount for the same period in either of the two preceding years.

Closely corresponding to this has been the increase in the Member Bank deposits in the Federal Reserve Banks, which have gone up from the February average, low for the year, of about 1900 millions, to an average in the last four weeks of 2047 millions.

This is the most rapid increase in Member Bank reserves that we have had in a long while.

In the absence of any increased demand for hand to hand currency, and apparently this demand has fallen off slightly instead, this increase would suffice for an average expansion of deposits for the System of around a billion and a half instead of the billion that has taken place.

Would this, and the further fact that the increase in deposits has run so far ahead of the increase in loans and investments (by about 350 millions), suggest that there is still a considerable slack to be taken up--i.e., room for still further expansion without rediscounting?

I have to go on Thursday up to Cornell University, but I hope next week we will have some further analyses for you.

How much of the increase in deposits is offset by a "Surplus" of Reserves by Country non member banks with their Correspondents & by member banks with F. R. Banks.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 15 1924

SUBJECT: Net gold receipts

TO: Mr. Snyder
FROM: Mr. E. Rose

Net gold receipts

1st 6 months,	1922	-	\$ 112,868,000
" " "	1923		109,641,000
" " "	1924		222,387,000

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 15, 1924 1924To Mr. Snyder

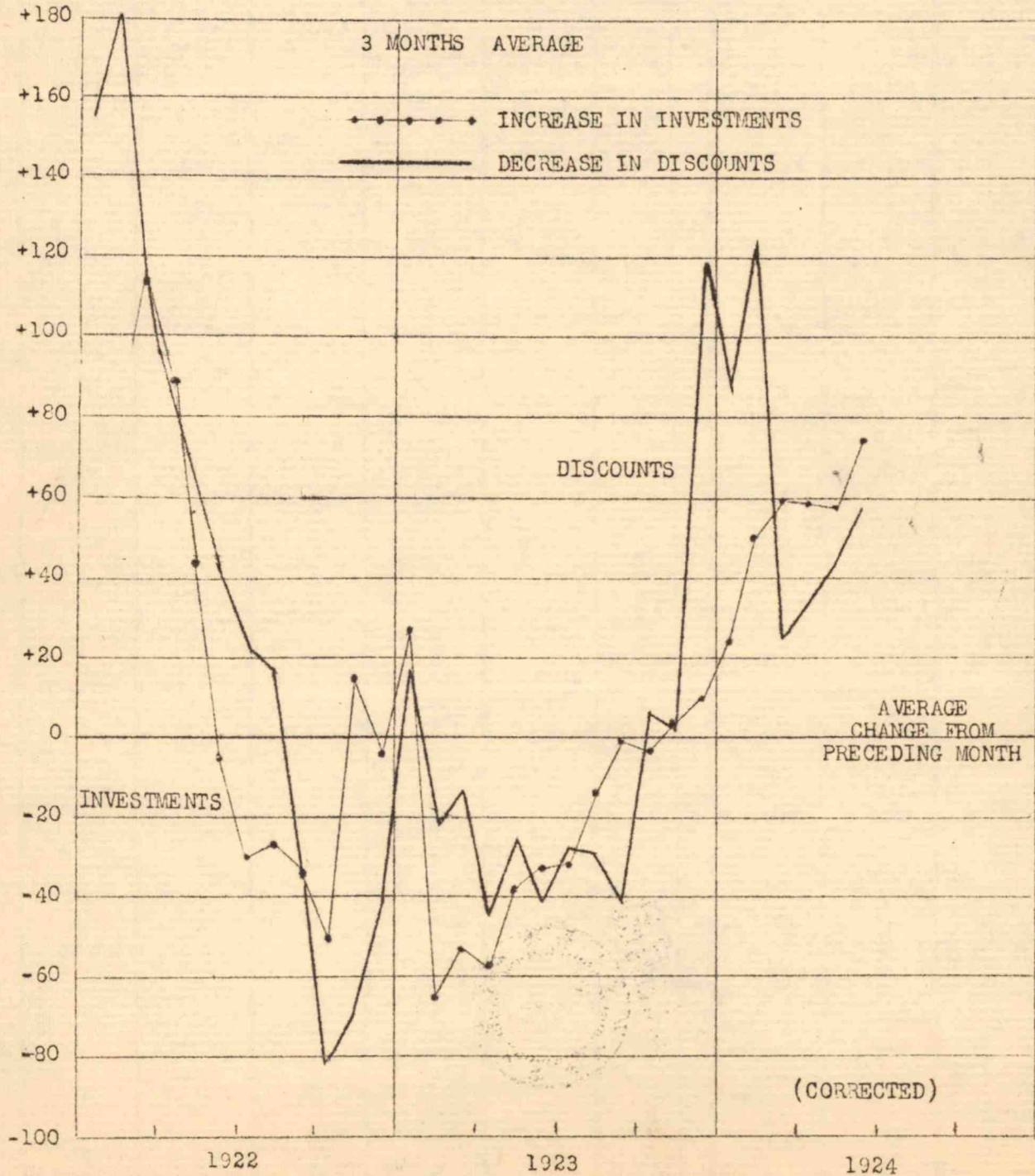
SUBJECT: _____

From M. E. RoseGold Certificates in Circulation (outside Treasury and
Federal Reserve System)

Jan. 1, 1922	178,701,274	(Federal Reserve Bulletin)	^S 3,656,988,557
Jan. 1, 1923	302,743,899	(Circulation Statement)	3,933,475,615
Jan. 1, 1924	582,029,209	(" ")	4,247,200,861
June 1, 1924	779,169,139	(" ")	4,460,181,615

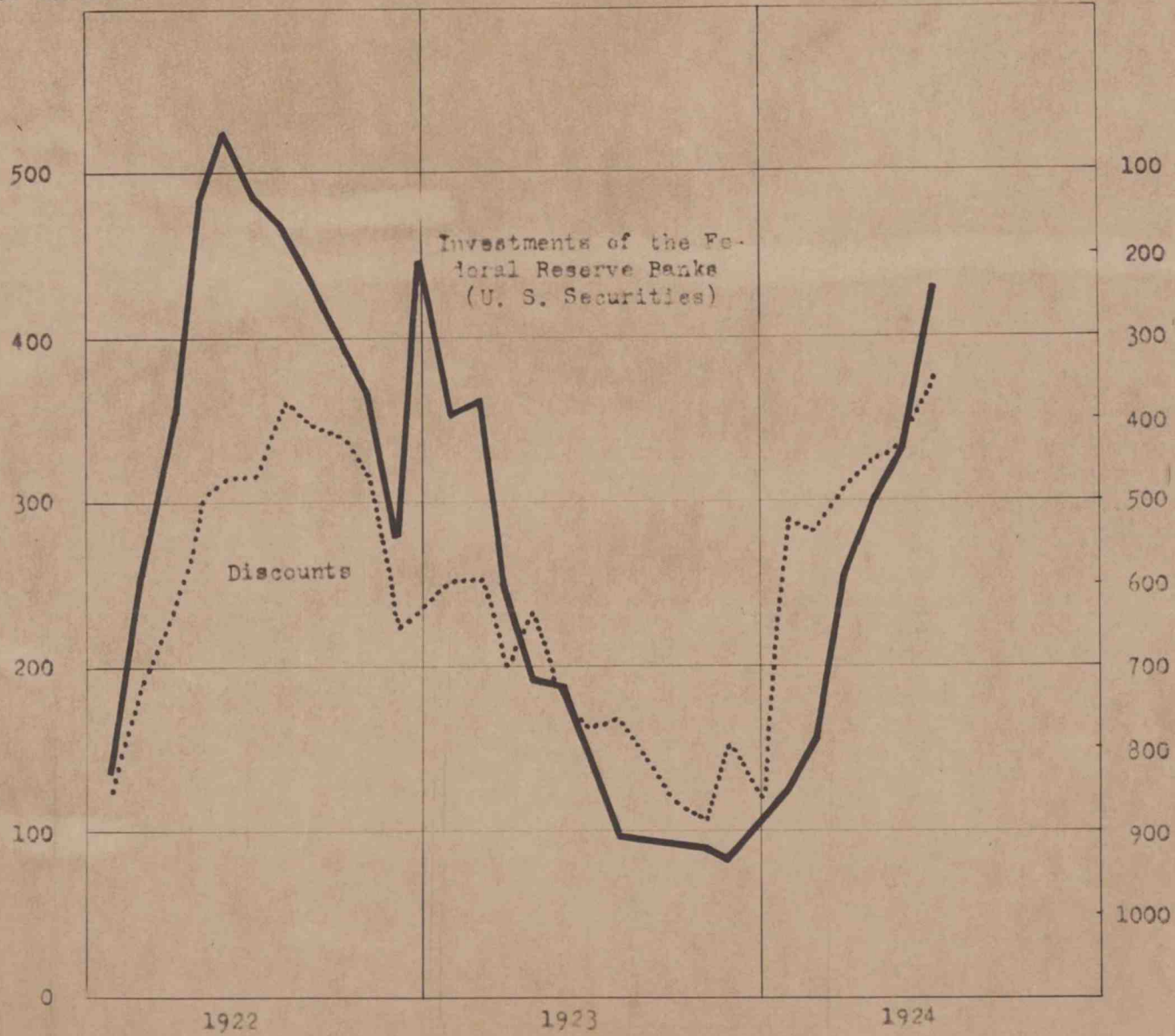
MOVEMENT OF REDISCOUNTS AND INVESTMENTS IN THE FEDERAL RESERVE BANKS

In the chart below is given the month to month changes in the amount of rediscounts in the Federal Reserve Banks, compared with the increase or decrease of investments. In a broad sort of way there has been since 1922 a quite remarkable correspondence between the decrease in the one and the increase in the other. The figures are given in three-months averages.



Investments,
millions
of dollars.

Discounts,
millions
of dollars



CREDIT MOVEMENTS IN THE FEDERAL RESERVE BANKS

In the long decline in the extension of credit by the Federal Reserve Banks, total earning assets of the twelve banks fell from a peak of 3,422 millions in October of 1920 to a low of 1,021 millions in August of 1922; a decline of close to 2,400 millions.

In the same period discounts and advances fell from a peak of 2,827 millions to a low of 380; or by very nearly the same amount as the decline in total earning assets.

But from the beginning of 1922 the decline in discounts from 1,113 millions to 380 millions, was much greater than the decline in total earning assets (from 1,471 millions to 1,021 millions). This was brought about by the steady expansion of security holdings which rose from 220 millions at the beginning of the year to 630 millions in June.

The expansion of 410 millions in securities held replaced a corresponding amount of discounts and advances. From June onwards the securities account was steadily reduced, with the result that in a few weeks the decline in rediscounts had stopped.

By the following December the securities holdings had been reduced some 333 millions, while rediscounts had risen by 325 millions, a very close correspondence.

By July of 1923 securities held had been reduced to below 100 millions, or by a total of 535 millions, while on the same date discounts and advances had expanded from the low point of 1922 by 550 millions; again a close correspondence.

Since this low point of July of a year ago the investment account has been increased by 356 millions, while discounts and advances have declined by 619 millions. Here the decline in discounts was in excess, and as a result the total of earning assets fell accordingly to a point 200 millions below the lowest point reached in the extreme depression of 1921 - '22. But from the extreme low point of the investment account in last November, to date, the increase in securities has very nearly balanced the decline in rediscounts.

With some slight divergencies, therefore, it may be said that the expansion of security holdings has been balanced by a corresponding decline in rediscounts and vice versa. Had the correspondence been exact, apparently the total earning assets would have been held at close to the average figure of the two preceding years; while at the present time this total is about 300 millions below this average.

Ordinarily and without the enormous accession of gold which we have had in the last three years and more, credit movements in the Member Banks of the System would necessarily follow rather closely the position of credit in the Federal Reserve Banks. With the incoming gold, however, this correspondence has been notably interrupted.

In 1922 there was a heavy expansion of bank credit in the country over the low point of the preceding year, without a corresponding increase in the expansion of credit by the Reserve Banks. The same thing has been taking place in the present year, as was pointed out in these pages last week. The rapid rise in deposits and, to a less extent, in loans and investments, has been in the face of the fall noted in total earning assets of the Federal Reserve Banks.

Last week saw another marked increase, bringing the total increase

of deposits in the weekly reporting banks up from the low point of March 5 by 1,049 millions. In the same period loans and investments increased only 672 millions.

In the New York district alone the increase in deposits in the same period was 655 millions, and in loans and investments 524 millions. In this period there was a net gain to this district through interdistrict transfers of 137 millions, so that the increase in deposits was about balanced by the other increases.

But this was not true for the whole country. Here we must look more to the other item of gold imports and the building up of reserve balances through this means. Since March the net of gold imports has been 145 millions, and the increase in reserve balances, taking the average for the latest two weeks reported, was very nearly the same.

In the absence of an active demand for loans this excess of reserves has led to a considerable expansion of Member Bank investments, but this has not as yet been sufficient to account for the still larger increase in deposits. Perhaps when we have more complete returns it will be found that there has been some drain from the smaller country banks to the city banks, and at the same time some accession in foreign balances, which would be sufficient to account for the differences disclosed.

OFFICE CORRESPONDENCE.

DATE July 16 1924

To _____

SUBJECT: _____

FROM _____

Don't be ashamed to
be seen in your

temple

P.S.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 16, 1924TO Governor Strong

SUBJECT: _____

FROM Mr. Snyder

About my "temple":

The kind of work I have to do here is distinctly promoted by reasonable quiet and freedom from interruption. There is a good deal of distraction of your attention in people constantly coming up to the door and looking in, and we have, first and last, a good many visitors.

It would help a good deal if the room were enclosed as was originally intended, for you can hear all the telephones, and people talking clear across the building. My 8 x 12 coop up on the 25th floor of the Equitable was a good deal more comfortable place to work in.

To add in the fact of no privacy from interruption makes a real difference. I'd like very much to talk to you about it.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 17, 1924

TO Governor Strong

SUBJECT: Studies of the Money Market

FROM Mr. Snyder

Just so you will not think us stupid or asleep, I wish I might draw your attention to the real difficulties in getting at the determinants of the market movements. It is so easy to build theories. But these are the facts:

As I pointed out to you in my memorandum of July 3, net deposits in New York City banks have varied from a straight average by scarcely more than 10 per cent at the extreme. There has been no secular increase in five and a half years.

For the whole System deposits are now probably 4 billions higher than the average of 1920. They were 3 billions higher on March 31, and probably a billion more than that now.

Now, we know definitely that in these five years and a half there has been something like the normal rate of growth in the volume of production, distribution, and trade. This would mean, for the five years since 1919, an expansion of between 15 and 20 per cent.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 18, 1924

Governor Strong

SUBJECT: Robert Crozier LongFROM Mr. Snyder

As I advised you, I wrote several letters and had a talk with Mr. Franz Schneider, of The Evening Post, but with little result. There does not seem to be a great deal of call for financial news from Germany here, such as Mr. Long could supply. I am very sorry not to be able to do more, for I liked him very much.

FEDERAL RESERVE BANK
OF NEW YORK

J

OFFICE CORRESPONDENCE

DATE July 22, 1924

TO Governor Strong

SUBJECT: New York Money Market

FROM Mr. Snyder

If we wish to get a really accurate picture of the flow of funds in and out of the New York banks, it would be of much interest to know the amounts or percentages that are loaned by these banks to distinctly out-of-town customers, not to other banks nor on commercial paper.

Would this be of sufficient interest to send a letter along the lines of the attached to six of the larger banks to see if we could get an estimate of these proportions?

Dr. Burgess

Will you see me about

this?

BS

*For Snyder's
delegating this inquiry
until Mr. Atwater
has progressed
further
wps*

FEDERAL RESERVE BANK
OF NEW YORK

July 22, 1924

Charles E. Mitchell, Esq.,
President, National City Bank,
New York City.

My dear Mr. Mitchell:

We are endeavoring to make some estimates of the movements of funds in and out of the New York market, and their disposition; and for this purpose I am wondering if you would care to ask one of your officers to make an estimate of the proportion or percentage of your total loans, in the United States, made to customers distinctly outside of the New York district.

We have, as you know, current reports as to the amount of the balances of out-of-town correspondents in the New York banks, which ranges from 600 to 800 millions ordinarily; and likewise the street loans for out-of-town correspondents loaned here. The total of the two accounts usually ranges from about 1,000 to 1,500 millions, or a range of from 20 to 30 per cent, with an average of about 25 per cent, of the total deposits of the New York Reporting Banks; and we were interested to know how much this in-supply was counterbalanced by an outflow directly from the New York banks to their out-of-town customers.

I am aware that it is a little difficult to demarcate what are strictly out-of-town loans, and if the matter is any trouble to you please disregard it. We have asked this of the six larger banks. If, however, it is not too much of an inconvenience we should be extremely obliged. A fair estimate is all that is necessary, and this, of course, would not include commercial paper purchases from the bill market. Of course your reply would be confidential.

Believe me, with very best regards,

Very sincerely,

Benjamin Strong,
Governor.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 24, 1924 192 TO Governor StrongSUBJECT: Brokers' LoansFROM Mr. Snyder

I have been looking into our records and find that the difference between the street loans as reported by the daily Reporting Banks and the brokers' loans, so long as they were reported to us, did vary a little in amount, though not so much in percentage; and the actual total now is probably a little higher, by possibly 50 millions, than the estimate Mr. Cooper has given you. I have suggested to him that hereafter he make an allowance for this variation in such fashion as to give you a little closer figure.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 24, 1924 192 TO Governor StrongSUBJECT: Voting in the District ofFROM Mr. SnyderColumbia

The answer to your inquiry about the withholding of the ballot in the District of Columbia took quite a little looking up at the Public Library to get it straight. As you will see, it was rather a long story.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 24, 1924 192

TO Mr. Snyder

SUBJECT: Suffrage in the District of

FROM Mr. Bendelari

Columbia

In the long dispute over whether the United States should have a particular district for their capitol, and where that district should be, the chief fear on all sides was that the Government might be influenced by the adjoining State or States. Therefore, the Constitution was made to read, Art. I, Sect. 8, Clause 17: "The Congress shall have power to exercise exclusive legislation in all cases whatsoever over such district." Later there was much discussion as to how far "exclusive" went; whether it included the inhabitants of the district, too, as President Taft held.

In practice the inhabitants did not vote in National matters, as no place was provided for them, but did vote in municipal matters from the beginning to 1874. Several attempts have been made to amend the Constitution so that they could vote for President, etc. After the Civil War citizenship in the District was given to all who had lived in it one year, and in 1871 the District was made into a Territory with a Governor. At the same time a Board of Managers, of whom "Boss" Alexander T. Shepherd was one, began to expand Washington recklessly, with the result that in three years the city was bankrupt, and Congress appointed an investigating committee.

The report of the Committee was drastic in its effects. By the act of June 11, 1878, the territorial form of government was done away with and three Commissioners took its place, while the right of suffrage was taken away from the inhabitants, not only in national but in municipal affairs likewise. And that is the condition of matters now.

The material in the Public Library that deals with the suffrage is very widely scattered. The books that have been consulted are:

- G. W. Hodgkin, "Political Science Quarterly," Vol. 25, p. 257.
- W. F. Dodd, "The Government of the District of Columbia"
- W. Tindall, "The Origin and Government of the District of Columbia"

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 25, 1924

TO Governor Strong

SUBJECT:

FROM Mr. Snyder

You will note by this morning's statements that the very unusual excess of Member Bank reserves appearing last week is cut down by only 10 millions this week, i.e., as closely as it can be estimated by the returns from the weekly Reporting Banks, this amount is around a hundred millions above the required reserve.

Following this big jump last week comes a corresponding jump in both the demand and time deposits of the weekly Reporting Banks, amounting to 184 millions for the two.

This brings demand deposits in these banks up by 998 millions over a year ago this date, and time deposits up 500 millions, or a billion and a half for the two, with little change in Government deposits.

This big increase in deposits is not supported by any corresponding increase in loans and investments. This increase for the week of July 16 amounted to only 67 millions, or much less than half the increase in deposits.

As compared with a year ago loans and investments in the W. P. B. are up only 783 millions, or, again, less than half the increase in deposits.

Total earning assets in the Federal Reserve Banks, despite the purchases for investment account, were off by 276 millions and have been continuously dropping for some months; yet this astonishing gain in Member Bank deposits continues.

At the present time this would mean a total of over a billion dollars to be accounted for whose origin must be sought outside of the Federal Reserve System, since we have no indications as yet that there has been any heavy drain from the smaller banks to the larger banks; i.e., we must account for an increase of 783 millions of deposits and a decrease of 276 millions in F. R. B. earning assets, or a total of 1060 millions. The larger part of the deposit gain in the W. P. B. for July 16 was outside of New York City.

weekly reporting banks?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 25, 1924

TO Governor Strong

SUBJECT: French Debt

FROM Mr. Snyder

AUG 6 7 10 PM '24

You may like to see the latest figures on the French debt situation and some comments thereon. It does not seem as if the situation had materially improved since last spring, and that a failure of the London Conference might easily precipitate another slump.

3709

Wobben
DS

OFFICE CORRESPONDENCE

DATE July 25m 1924

Mr. Snyder

SUBJECT: French financial conditions

FROM E. Rose

There does not appear to be much data to add to that contained in the Economist relative to financial conditions in France. Miss Frankenstein reports that the French magazines contain nothing on the subject.

The Statist (July 5, p. 15) and the Stock Exchange Gazette (July 3, p. 1311 and July 10, p. 1348), contain articles very similar to that in the Economist. More emphasis is laid upon the unwillingness of the public to continue to subscribe to bonds. The three milliard franc issue offered by the Credit National in January brought in less than half that amount, this being the first time that Credit National offerings had failed. The Departments of the Nord, Aisne and Somme desire to float reconstruction loans, but have been unable to find any French banker willing to attempt to offer the issues. M. Clementel, Minister of Finance, declares that the disaffection of the French public for securities with a fixed yield is due to lack of confidence in the franc. He proposes, since the Treasury has no cash and no means of borrowing from the public, to pay war claims in ten-year bonds and thirty-year annuities, leaving the recipients to obtain cash, if they can, by rediscounting at a considerable loss. The public, however, continues to subscribe heavily to National Defense Notes, which are no longer subject to taxes of any kind.

The Stock Exchange Gazette points out that in order to avoid exceeding the limit of advances which the Bank of France may make to the Government, (23,200,000,000 francs for 1924), the Government has borrowed one milliard from other banks, making a total indebtedness to banks of 24 milliards.

FEDERAL RESERVE BANK
OF NEW YORK

INTEROFFICE ROUTE SLIP

OFFICE SERVICE
MESSENGER SECTION

TIME _____

A. M.
P. M.

DATE _____

TO _____

DEPARTMENT
DIVISION
SECTION

REMARKS _____

FROM _____

DEPARTMENT
DIVISION
SECTION

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

FOR ACCURATE DELIVERY ALL COMMUNICATIONS SHOULD BE DISTINCTLY LABELED

FEDERAL RESERVE BANK
OF NEW YORK

July 26, 1924.

Federal Reserve Board,
Washington, D. C.

S i r s :

CLEARING HOUSE STATEMENT: A further rise this week of \$97,452,000 in loans, discounts, and investments of New York Clearing House banks brought the total of such resources to \$5,201,000,000, which is higher than at any time since 1919 when our comparative records began. A comparison with the statement of average condition shows that the increase was fairly evenly distributed throughout the week.

Accompanying the increase in loans and investments, net demand deposits rose \$84,860,000 while time deposits were up \$5,846,000, and total deposits of \$5,000,000,000 were higher than ever before. Excess reserves of \$29,875,400 at the close of the week were \$8,796,000 smaller than a week ago.

STREET LOANS: Since Tuesday of this week there has been a further increase of \$20,000,000 in the street loans of daily reporting banks which have outstanding for themselves and their correspondents a large percentage of all such loans. The present total of \$1,587,000,000 is the highest since the high record of the middle of May 1923, and is up about \$100,000,000 since the end of June and about \$220,000,000 since the end of May. (These figures are reported to this in confidence and should not be quoted).

LOANS AND INVESTMENTS: A decline of \$900,000 in loans to member banks was the only net change today in our earning assets, which at \$189,000,000 (exclusive of securities held temporarily pending allotment) are \$3,300,000 lower than last Wednesday. A summary of earning assets follows:

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 28, 1924 1924TO Governor StrongSUBJECT: July AtlanticFROM Mr. Snyder

2443

If your eye has not already caught it, I am sure you would be much interested in a very thoughtful and well written article in the current (July) Atlantic, by Arthur D. Little, the well-known engineer. Stimulating.

One thing it set me thinking about was how far, alongside of the remarkable progress in physical lines in this country, we had made similar progress towards a rational or scientific banking policy.

You know one man in thirty or forty thousand isn't very many.

Mr. Reyer pls get the Copy

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 28, 1924 1924TO Governor StrongSUBJECT: Books from Governor NormanFROM Mr. Snyder

PS

The Library is greatly indebted for the gift of the two books from Governor Norman. It was my impression that the sketch of the "Intended Bank" was by Patterson himself, and asked Mr. Bendelari to look it up, and his finding is as follows:

very interesting

"T. A. Stephens, in 'A Contribution to the Bibliography of the Bank of England,' 1897, says of 'A Brief Account of the Intended Bank of England,' 1694: 'Most probably by William Patterson, to whom it is attributed by Banister in his edition of Patterson's works, published in 1854.'

"Michael Godfrey, in 1695, published 'A Short Account of the Bank of England,' which is praised by Stephens, who gives more than a page full of quotations from it.

"No attempt is made to give the authorship of the other pamphlet, 'Some Useful Reflections upon a Pamphlet called "A Brief Account of the Intended Bank of England."' "

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 30, 1924TO Governor StrongSUBJECT: Books for Economic ReadingFROM Mr. Snyder

Mr. Roberts has already sent you a quite admirable list of suitable books for a small economic library; and I am strongly of the belief that a few of the ablest works, deeply studied, are worth infinitely more than a smattering of all the babble and chatter which make up about 90 per cent of economic writing.

About the only book I would add to the list would be one of my old standbys, Simon Newcomb's "Principles of Political Economy," which has always seemed to me the ablest American book on Economics yet written. I should prefer Prof. Fisher's "Purchasing Power of Money" to his work on "The Stabilization of the Dollar," which is merely a popularization. I should add one of Keynes' books, say his tract on "Monetary Reform," if only for the crispness and lucidity of his style. He is the lineal heir of J. S. Mill in that regard.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 31, 1924 1924TO Governor StrongSUBJECT: Estimation of Brokers' LoansFROM Mr. Snyder

What I said about the current estimates of the total amount of brokers' loans outstanding may be illustrated from a definite analogy.

In the four and a half years from the middle of 1919 to the beginning of this year, total street loans reported by the daily Reporting Banks, and the "loans on stocks and bonds," reported by the weekly Reporting Banks of New York City, showed a fairly consistent relationship, as is disclosed by the red line on the attached chart.

But you will see that this relationship was broken in the present year, so that an attempt to estimate street loans from the reports of the weekly Reporting Banks at the present time would be out by several hundred millions.

Mr. Cooper has worked out new estimates ^{*of broker's loans*} by a method of average differences, which, with the limitations indicated above, is probably as reliable an estimate as can be made from the available data.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 31, 1924 192To Governor StrongSUBJECT: Heavy Enrollment in BankingFROM Mr. SnyderClasses

A little item of interest.

I had a call yesterday from Prof. Wright, professor of Banking in the University of Illinois, at Urbana. He tells me that the total resident enrollment for the year (no mail order students included, as in the Columbia figures), was over 12,000, which probably makes them the third largest in the country.

Of these over 2500 were in the School of Commerce, a large part of whom are graduate students. And of these over 1,000 were enrolled in the classes in Banking.

Of these latter, all of them had to have previous courses in Economics. All of which seems evidence of a changing world.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 1, 1924

To Governor Strong

SUBJECT: Member Bank Deposits

FROM Mr. Snyder

nc: As you have doubtless noted, Member Bank reserves deposits this week covered the slight loss of last week, which puts them back to the high point of two weeks ago.

This seems to indicate that the estimated excess of around a hundred millions of Member Bank deposits is not just a freak jump, but something to be reckoned with.

The remarkable thing is that, of the total gain of something over two hundred millions since a year ago (213 millions for July 30), practically all of it has come from the weekly Reporting Banks and apparently none from the other banks of the System.

Further than this, on the average about three-quarters, or around 150 millions, has come from the New York City banks, leaving only something like 50 or 60 millions for all the rest of the System.

In the same way, taken from a year ago, about three-fourths of the increase of loans in the weekly Reporting Banks has come from New York City, and likewise of the total loans and investments; while of the billion and a half increase in demand and time deposits less than half has come from New York City. Which is interesting.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 4, 1924TO Governor Strong
FROM Mr. SnyderSUBJECT: Gains by Clearing House Banks

In the last four weeks, clearing house banks have gained 216 millions in demand deposits, and expanded their loans by 323 millions.

Excess reserves continue very high.

What do you suggest? Think it
has gone too far?
RS.

FEDERAL RESERVE BANK
OF NEW YORK

August 2, 1924.

Federal Reserve Board,
Washington, D. C.

S i r s :

CLEARING HOUSE STATEMENT: There was a further rise of \$61,860,000 in loans, discounts and investments of New York Clearing House banks during the week ended last night, and the present total of \$5,263,000,000 is higher than at any time since 1919 when our comparative records began. Accompanying this increase, net demand deposits advanced \$28,134,000 and time deposits \$7,191,000. The gain in demand deposits was somewhat smaller than shown in the summary of average daily condition, due probably in part to a loss of \$18,000,000 to the interior in commercial settlements yesterday. Total deposits of \$5,035,000,000 at the close of the week were higher than ever before. Excess reserves were \$3,915,000 lower than a week ago at \$25,960,000.

LOANS AND INVESTMENTS: A decline of \$3,800,000 in rediscounts and advances was the only change today in our earning assets, the total of which is \$215,700,000, exclusive of \$8,050,000 of securities held temporarily for allotment later among the Reserve Banks. A summary of earning assets follows:

	<u>Millions of dollars</u>		
		Change from	
	<u>Today</u>	<u>Yesterday</u>	<u>July 30</u>
Bills discounted	38.2	- 3.8	- 0.9
Bills held under sales contract	0.0	0.0	0.0
Other bills purchased	6.7	0.0	- 0.9
Special investment a/c	169.6###	0.0	+20.8
Other investments	1.2	0.0	0.0
Total earning assets###	215.7	- 3.8	+19.0

Exclusive of \$8,050,000 of securities held temporarily pending distribution.

Chase National Bank paid off the \$3,000,000 borrowed yesterday, while the Fifth Avenue Bank reduced \$1,100,000 to \$500,000. Other changes were smaller.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 5, 1924 192 TO Governor StrongSUBJECT: Brokers' LoansFROM Mr. Snyder

Mr. Cooper has worked over the brokers' loan figures from the beginning, and has worked out a method of percentage of differences, which I think will give us perhaps the most accurate estimate that can be made from the existing data. But we still have no means of knowing whether the general sameness of the difference between the street loan figures and the total that is shown in these four years will continue or even does continue now.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 6, 1924 192

To Governor Strong

SUBJECT: Movement of Business

FROM Mr. Snyder

As to your question:

The stock market made a new high for industrials this week, and thirteen consecutive weeks of this is a rather long stretch. I have wondered if this was not going considerably stronger than the recovery of business, so far, would justify, and if a considerable reaction might not soon be due.

I should not expect to see the stock market culminate before a strong upturn in business, and probably towards the peak of that upturn, which latter might not come before next spring. If this was the case, the present policy might readily and safely realize the ends sought. But, as I said the other day, I should think it might not be amiss to suspend further purchases for a while, and see what happens.

As to your suggestion as to the causes of the heavy increase in Member Bank reserves, I should be quite in agreement, as you will see from the marked paragraph on page 2 of the attached.

Notes
RS

FEDERAL RESERVE BANK
BOARD

Confidential
August 4, 1924

THE PIVOT OF THE RECENT EXPANSION

The remarkable fact about the notable expansion of bank credit since early in March is that by far the larger part of it has centered in New York City, and, up to the latest dates available for the whole System, had not, apparently, been shared by the rest of the country.

The latest date for which we have full returns as to deposits in the 9,785 banks of the whole System is June 25. This showed that while the banks of the New York district had at this time gained 576 millions in demand deposits since March, the remaining banks of the System outside this district had lost slightly. Demand and time deposits in the New York district had together gained 639 millions, while the whole System had gained but little more.

As in this same period the 750 weekly Reporting Banks had gained in total deposits nearly as much as the whole System, this meant that the smaller banks of the System had hardly gained at all. Since June 25 the gain in the weekly Reporting Banks outside of New York City has been greater than in those of New York City. But the most of this has been in Chicago and other large centers. Apparently the "wave" is expanding outwards in about the usual fashion.

The focus, however, is still New York City, as is evident from the reports of the Clearing House banks, which have gained 216 millions in deposits in the last four weeks, and expanded their loans and investments by 323 millions.

Parallel to the tendencies indicated, it is noteworthy that since March the total earning assets of this Federal Reserve Bank have gained slightly, while those of the other Federal Reserve Banks have declined by about a hundred millions. The source of this change lies, of course, in the increased

investments, since the discounts and advances of this Bank have now fallen to an almost negligible amount, while those of the System are still around 300 millions.

Undoubtedly the heavy increase in investments has likewise contributed to focus activity in New York City, since the larger part of such purchases is necessarily made here and the deposits so created appear first in the New York City banks. That the expansion of the total deposits in the commercial banks, however, shown in the last year, and especially in the last five months, is a real gain, and largely from external sources, is evident from the fact that in this period the total amount of credit extended by the Federal Reserve Banks has steadily declined.

*U.S. gold
imports
& foreign
deposits*

This notable expansion in deposits is reflected in the generally buoyant condition, alike of stock, bond, and commodity markets. In the New York stock market the average of industrials last week made a new high for the twelfth consecutive week, while bonds and railway shares maintained the strength they have shown.

It is in line with these developments that bank clearings in New York City in the past two months have been well above the estimated normal, while for the country at large, outside of New York City, they have been very slightly below. The revised figure for outside clearings, or debits, which is as a rule an excellent forecast of the composite index of the Volume of Trade for the same months, is 93.9 for July, as against 98.6 for June. The revised figure for the total Volume of Trade for June is 95, or somewhat below the indication from outside bank clearings. The course of these indexes is depicted on a preceding page.

With rising commodity prices and expanding bank deposits it is quite possible that in the recent recession the low point in the trade of the country

will be found to have been reached in June, although July will not show a great deal of improvement. The decline from the "spurt month" of last February to the low point in June would have been then around 15 per cent.

If this conclusion should be verified, we should then have a remarkable parallel to last year. Then, it will be remembered, the high point alike for the volume of trade, for stocks, and for commodity prices was reached in the same month of March. Thereafter came a decline running about three months, followed by dulness and then a sharp recovery to the following February.

This year the decline from the peak month of February also appears to have run about three months, but the recovery in the stock markets, stimulated by superabundant funds and low interest rates, has been much sharper, so that the average for industrials last week made a new high for the year, and reached practically the same point as March of a year ago, which in turn was the highest point since November 1919.

If the volume of bank credit continues to expand, this would in due course bring a corresponding advance in the general level of prices, and under prevailing conditions, where farm prices have been so far below the averages for all commodity prices, might mean a sharp increase in commodity prices at wholesale. In any event there seems now little prospect of such a general decline in business as was so widely anticipated a few months ago.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 6, 1924 1924TO Governor StrongSUBJECT: Robert Crozier LongFROM Mr. Snyder

AUG 7 10 23 AM '24

✓ Although I never had any answer to my letter to the Editor of the Annalist, regarding Mr. Robert Crozier Long, they seem to have taken him on as their correspondent; and, as you know, he sends a regular letter on such subjects to the Times.

6641

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Aug. 7, 1924 1924

TO Governor Strong

SUBJECT: Review of Keynes' Book

FROM Mr. Snyder

FED. RES. BANK
AUG 8 1924

Wesley Mitchell has often remarked on the admirable book reviews which the English write, as contrasted with those we do over here. In the attached Journal is a review of Keynes' book, by Sir Josiah Stamp, which is an example, and, as it seems to me, a gem of shrewd observation and good sense as well.

You will be interested in what he says of the Federal Reserve.

*Put a letter in it about the "tract"! It's all about Keynes!
P.S.*

1273

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 8, 1924. 192

To Governor Strong

SUBJECT: Excess Reserves

FROM Mr. Snyder

I have had Miss Hicks draw off the total of excess reserves for all Member Banks of the System, available only by calls; and put this with a rough computation of the probable excess reserves at the present time, as nearly as we can compute them from the returns of the weekly Reporting Banks.

from 1920

It is interesting to note that the heaviest reserves shown, at the end of 1921 and following, were just preceding and during the big expansion of 1922.

Contrasted with this are the low averages for the last year or more, the average excess for the last four reported calls being 23 millions for the System.

The returns from the weekly Reporting Banks for July 30 show an increase in the reserves of these banks of 22 millions, while the increase of the reserves for the whole System for that week were reported as only 12 millions. As compared with a year ago it is interesting to observe that the weekly Reporting Banks' reserves were up 195 millions, while the whole System for the same week was up only 207 millions.

In other words, practically the whole of the excess is in the larger city banks.

Loans and investments, you have observed, in the weekly Reporting Banks jumped about 93 millions, and demand deposits by 97 millions.

As compared with a year ago this brings the net increase in demand, time and Government deposits up to 1622 millions.

*Notes 8/13/24
BS.*



FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 8, 1924 192

To Governor Strong

SUBJECT: Price Levels

FROM Mr. Snyder

Since about the end of 1922 our new index of the General Price Level, a composite of wholesale prices, retail prices, wages, rents, etc., has been fluctuating narrowly around 180, taking 1913 as a base of 100. The range has been from 177 to 184, with the latest month 179.

In the same period the Bureau of Labor index of wholesale prices has shown something of the same stability. Its centre of fluctuations has been about 152, with a range in the last two years of from 147 to 159. The latest figure is 145.

From the end of 1922 our composite index of Wages, which includes factory labor, unskilled labor, clerks and teachers, has ranged between 197 and 214, with an average around about 208. The latest figure is 212.

The index of food prices at the farm in June was around 120. It is very interesting how completely this is a reversal of the relations of the earlier part of 1919, just before the big boom. Then the index stood:

Composite of Wages	174
Wholesale Prices	203
Food Prices at the Farm	221
General Average	181

In other words, the general level is now just the same as five years ago this time, but the relationship then subsisting in the different types of prices has been inverted.

Now consider that the 1919 indexes measured the change from only six years preceding, i.e. in 1913, when all the groups were taken at a common level of 100.

Now. In the last six months we have had an increase in the total of demand deposits by around 7 per cent. If this should continue much further it would probably mean some rise in the general price level; and I have been wondering about the effect on the several groups.

(1) Farm prices, having been so violently depressed for now four years and more, would it not seem likely that they would rebound the most?

(2) If farm prices rise sharply, so too probably would commodity prices at wholesale.

(3) This would carry some increase in the average cost of living and rudely interrupt the heyday which the urban and factory worker has enjoyed within the last two years or so.

(4) Would not this bring an urgent demand for an increase of wages, and, if business should also sharply revive and trade prospects were good, is it not probable that these demands would be granted? *And then*

FEDERAL RESERVE BANK
OF NEW YORK

J

OFFICE CORRESPONDENCE

DATE August 13, 1924 192

Governor Strong

SUBJECT: Rediscount Rate Changes

FROM Mr. Snyder

It occurred to me that a complete record of our rate changes by dates would be of interest, and I have suggested that this be used in the next number of the Monthly Review. Do you approve?

Feb 27 1924

20

*For Show does not
from this*

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 15, 1924 192

TO Governor Strong

7466
SUBJECT: New Republic Article

FROM Mr. Snyder

RECEIVED-1
AUG 15 1924

You may have seen this in the New Republic. It is a thoughtful and well written article, I imagine from David Friday, who writes the most of the articles on Banking and Finance in the New Republic.

*Did not appear
me so much, not by
Friday, either. P.S.*

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 15, 1924. 192To Governor StrongSUBJECT: Bank PolicyFROM Mr. Snyder

I rode in on the train this morning with Mr. George E. Roberts, and talked to him about an abstract of the Chase Bulletin article on present policies, and was interested to find that his ^{offhand} reaction was that the ideas in the Bulletin were right, that is to say, ^{he is} apprehensive that all this cheap money might raise hob and that the situation had been a good deal accentuated by the heavy purchases. He was just back from Chicago, and I wondered how far all this reflected a rather widespread feeling among bankers. I talked to him a little bit about the various problems involved, and he readily agreed that it was very complicated and difficult. For that very reason it seems to me that any kind of attempt to offer explanations might do more harm than good, save perchance in conversation with a few men of large understanding, like Mr. Roberts. I had thought a little of a private memorandum that might be on tap, just setting forth the real difficulties of the situation, that would be available for private use with any critics. This need not enter definitely into actual policy, but merely make clear the problems that such a policy must consider. What do you think?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 15, 1924.192TO Governor Strong

SUBJECT: _____

FROM Mr. Snyder

This invitation to give a course on "The Business Cycle" rather interests me: first, because the students in this course are largely teachers of Economics drawn from all parts of the country; second, because I rather like to keep in touch a little with the academic world; and thirdly because doing this sort of thing rather stands you up to give definite shape to your ideas, and sometimes to revise them.

Would there be any objection?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 15, 1924. 192TO Governor StrongSUBJECT: Street LoansFROM Mr. Snyder

It is very interesting to note the very rapid rise in the street loans of the New York Reporting Banks, in the face of a decline in these same loans placed here for correspondents.

The street loans of the New York banks are now far higher than at any time in the last five years, while the out-of-town street loans are considerably lower than the record.

The total loans outstanding, as you have observed, are now very close to the peak, reached in 1923. This was the record.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 15, 194TO Governor StrongSUBJECT: Excess ReservesFROM Mr. Snyder

Miss Hicks' computation of excess reserves for August 6 shows no change from the last four weeks, which means that the high excess which began to show in the week of July 16 is something definitely to be reckoned with.

As you know, this compares with about 20 millions on March 31, and 15 millions on December 31.

You have doubtless noted that practically all of the large increase in "all other" or commercial loans in the Reporting Member Banks came from New York City, as did the major part of the expansion in deposits.

Last week's increase in deposits brought the increase in total net, that is, demand, time and Government deposits, up to about 1825 millions over one year ago.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 20, 1924.

TO Governor Strong

SUBJECT:

FROM

Mr. Snyder

Is not this an interesting map in the circular which you sent over - another vivid instance of how much diversity may be buried under a phrase or under an average, as, for example, in the talk about "agriculture" and the farming depression.

The hen is today of more economic importance than all our wheat farms, but how little we hear of depression there!

*Noted
B.S.*

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 20, 1924.

TO: Governor Strong

SUBJECT: Dr. Burgess' Memorandum.

FROM: Mr. Snyder

I have talked over at length with Dr. Burgess his memorandum on the Chase bulletin article. The most of it I agree with. It seems to me that the main thing to be met is the proposal that Anderson lays down on page 21 and 22, that the present Federal Reserve policy is all wrong, and secondly that the main business of the Federal Reserve Banks is to ^{study} money rates and money markets. It seems to me that these ought to be the wide variables and must be followed if we are to have anything like stable credit and business conditions. The Anderson idea is essentially the banker's idea of keeping rates up so that the banks will earn plenty of money. That is the strength of his position and probably the reason why the Chase Bank was willing to publish his criticism.

It seems to me that this is an issue which has got to be squarely met and met along the lines of broad policy, of public interest against bankers' interest. I think that Mr. Roberts and all economists would strongly support this position, and that it would be much more effective than attempting to controvert Anderson's typical exaggeration^s and overstatements.

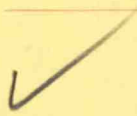
OFFICE CORRESPONDENCE

DATE August 20, 1924.

T Governor Strong

SUBJECT: Excess Reserves.

FROM Mr. Snyder



My memorandum of August 15, on the prevailing excess of reserves was simply to draw your attention thereto and indicated no change of mind whatever. I do think, however, that there is a great difference between heavy excess reserves at the present time, when the tide of business has been very strong, and at about the estimated normal, and the recession even from the winter's high points very slight, save in a few lines, and the situations which used to develop after one of our drastic panics; ~~But it does seem to me very different~~ and that it might be misleading to think of it, as the Harvard Service and some others have merely "the usual piling up of funds in the central reserves. Reservoirs" &c.

~~WMA~~ Such a view springs from the old obsession that iron is a "good barometer of business." As a matter of fact, our clearings index for outside New York is about normal for July and has not been below 98 in recent months; which clearly indicates that we have had no serious ~~depreciation~~ *depression.*

Thank you!

MS (My sec. is on vacation!)

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 21, 1924.

TO Governor Strong

SUBJECT: Mr. Breck's Monograph.

FROM Mr. Snyder

I should like very much to draw your attention to a really fine monograph prepared by Henry C. Breck of the San Francisco Reserve Bank, recounting his investigation and compilation of a new Index of General Business in the 12th Federal Reserve District.

The quite extraordinary part of it is revealed in the two charts VI and VII, following page 7, comparing his results for that district with our Index of the Volume of Trade and with Bank Debits Outside New York City. As it follows very closely the ideas and methods we have pursued here, I am naturally very much pleased to see this sort of thing done, particularly in view of the strenuous opposition of our friends in Washington.

Very interesting but awfully long!

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 22, 1924.

TO Governor Strong

SUBJECT: A Forecast of the Bond Market.

FROM Mr. Snyder

I am interested in the attached because it coincides with the prophecy of a very good indicator which we have developed, which has worked very well in its six years of life. This points to an upturn in money rates within perhaps a month or two.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE August 22, 1924.

TO Governor Strong

SUBJECT: Excess Reserves.

FROM Mr. Snyder

For the fifth week, the estimated excess of reserves, as nearly as we can compute it, was on August 13 about 80 millions. You have doubtless noticed a further heavy increase both in demand and time deposits, bringing the total for the two, as compared with a year ago, up nearly 2 billion dollars.

It is interesting to note that the week's increase in the reserve balances was all from New York City, but the expansion of demand deposits in the member banks was very widely distributed.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 5, 1924 192TO Governor StrongSUBJECT: Excess Reserve DepositsFROM Mr. Snyder

The weekly Reporting Banks this morning disclosed a sharp increase of nearly 20 millions in Member Bank reserve deposits, as contrasting with a decrease of nearly 13 millions the previous week.

On the basis of the ~~the~~ ~~of the~~ ~~of the~~ System as of June 30, data received this morning, ~~Miss Nick~~ estimates that the excess of reserves for August 27, the latest available date, in the weekly Reporting Banks, was around 50 to 55 millions, supposing, as is apparently the case, that practically all of this increase in reserve is contributed by the 750 Reporting Banks and that something like half of it is supplied by the New York City banks.

For this same date, August 27, the gain in demand deposits in the weekly Reporting Banks over the previous week was nil, so that unless there was an unusual expansion this last week the excess of Member Bank reserves for the whole System might be somewhere around 75 millions.

This would make about six or eight weeks now that the excess has remained at around this high figure.

With the data for the whole System received today it will now be possible to make a detailed study of conditions up to June 30. But my impression is that it will continue to show that the expansion of about a billion and a half in demand deposits and half a billion or more in time deposits, shown by the weekly Reporting Banks, over a year ago, represents nearly all of the expansion for the whole System; in other words, that the smaller city banks and country banks have contributed to this very little.

Let's see what it shows.

RS.

Sept. 6, 1924

OFFICE CORRESPONDENCE

DATE _____ 192

Governor Strong

The Prayers of the Bill —

To _____
FROM Mr. Snyder

SUBJECT:

The "Float" and Reserves.

It is plain that in the Bill of Complaint are two separate issues which have but little direct connection: ↑

(1) The demand of the first prayer, stated in more direct terms, is that the Reserve Bank of Atlanta, and therefore all Reserve Banks, shall at once give credit for all uncollected checks and drafts drawn against any other Member Bank in that Federal Reserve District. It is true that the Federal Reserve Act contains no explicit mandate or prohibition as to this question. But in view of the debates leading to the final amendments on this question there does not seem to be any question as to the meaning and intent of the Act, as is well set forth in the opinion of Weed, Counsel, in the letter to Governor W. P. G. Harding, of the Boston Reserve Bank, cited as exhibit herewith.

amended

The plaintiffs in this case seek to revive an old issue that was fully discussed in the conferences and debates that led to the amendments of June 21, 1917. It relates to what, in technical banking parlance, is known as the "float;" and obviously involves the whole question of sound banking theory and practice.

Bank reserves must be in lawful money which can legally be paid to, and must be accepted by, every depositor in every bank.

It is perfectly clear that no bank could force its depositors to accept repayment of their deposits in, for example, the banks' own bills or promises to pay; still less in the promises of other banks or other individuals to pay, or in checks or drafts of unknown value. A reserve must be a real reserve and uncollected checks and drafts cannot, "manifestly," as the Federal Reserve Board lays down in its Regulations, be considered real or lawful reserves.

The whole object and theory of reserves is that a bank shall always have on hand sufficient funds with which to pay the ordinary demands of its depositors without question. The amount of such reserves which will be required is not a matter of theory but simply of long years of banking experience, alike in this and other countries.

In other countries this experience has established a rule or custom that has all the sanctity and force of an actual statute. It was this same experience which, in this country, led to the establishment of the so-called "legal" reserves which are today and have been for more or less of a century the established banking practice of this country.

To insure this ability to pay at all times and upon all occasions, not merely the ordinary demands but even the most extra-ordinary demands of the depositors, the Federal Reserve Act made elaborate provisions for means by which the Member Banks of the System should always, within the limits of the total reserves held by the System, be able to replenish their depleted reserves by discounting eligible paper at the several Reserve Banks.

DATE Sept. 6, 1924

OFFICE CORRESPONDENCE

TO Governor Stragg
FROM Mr. SnyderSUBJECT: The Prayers of the Bill
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The Act further provided that in extremis, as where such extraordinary demands should be general, as in a period of panic, the Federal Reserve Board might suspend the minimum requirements of the Reserve Banks themselves, in order that accommodations of disressed Member Banks might not be denied.

Furthermore, by the establishment of the Federal Reserve System the minimum lawful reserves for the different classes of banks therein established were radically lowered from what had been the legal requirements under the old National Bank system. It was part and parcel of the theory upon which this radical reduction was accomplished that the reserves thus set up should be actually the real reserves and not in part fictitious reserves, as would be the case if uncollected checks and drafts were allowed to be counted as a part of the latter.

Under the old banking system it had been the practice to allow the country National Banks to count this "float," or uncollected checks and drafts, as a part of their lawful reserves, owing to the much greater average time required for collection of country bank business than of city bank business. But under the Federal Reserve Act the legal reserves of the country banks were reduced from 15 per cent of their lawful deposits to 7 per cent. If, as might easily be the case, the outstanding uncollected checks and drafts comprised a considerable part of this minimum requirement of 7 per cent, the actual reserves of lawful money carried by these banks would be reduced far below the limits of safety.

It is true that the plaintiff in this issue makes demands that only such checks and drafts drawn against other Member Banks in the same Federal Reserve District shall be so counted as lawful reserve. But why such a discrimination? If it is good banking theory or practice that this uncollected "float" should be so counted, why should this be confined to checks drawn on banks in a certain district? The limits of the several Federal Reserve Districts are purely arbitrary, established by a committee, and may be changed or abolished at the discretion of the Federal Reserve Board. Any or all of the twelve Reserve Banks may be closed by order of the Federal Reserve Board, or one may be consolidated with that of some other district.

Some of the district lines divide states in twain. This is specifically the case in the particular district to which the complaining bank belongs. In the districting of the Federal Reserve System the State of Mississippi is divided almost exactly in half. The upper part of it belongs to the eighth, or St. Louis, district, the lower half is joined with the lower half of Louisiana to the sixth, or Atlanta district. But the other part of Louisiana, for example, is joined, not to the eighth district, but to the eleventh, or Dallas, district.

OFFICE CORRESPONDENCE

DATE Sept. 6, 1924

TO Governor Strong

SUBJECT: The Prayers of the Bill

FROM Mr. Snyder

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It is perfectly patent that, for the Pascagoula National Bank, the uncollected checks and drafts from the lower part of Mississippi cannot be counted a more valid, lawful reserve than, for example, checks or drafts drawn against the banks of, let us say, New York, Chicago or San Francisco. It would be grotesque to offer such a contention and it would be difficult in daily practice to make such a segregation.

If "float" is legal reserve anywhere, that part of it derived from one arbitrarily established district is just as valid as that from another, and there is no provision in the law which would confine the amount of the "float" to be counted as reserve to that arising within the particular district in which a given bank is located.

In plain terms, the proposal is simply that the Federal Reserve Banks shall, in effect, buy all uncollected checks and drafts in transit, by giving credit for the same on their books. The whole of the current "float" is estimated at something like 500 or 600 millions. If this enormous sum were included as a part of the Member Bank reserves, the effect at any time could hardly be other than unhealthy, and at the present time might even be disastrous.

We have learned from severe and in some cases bitter experience, in and since the late War, the results which may flow from currency and credit "inflation," even though it may be based, as it then was, upon the otherwise sound foundations of ample gold reserves. What we term inflation is nothing more than an undue expansion of bank credit and its attendant increase of currency beyond the actual needs and requirements of legitimate business.

To carry on the vast trade of the country there are, under existing conditions, certain fairly definite requirements of credit, the vastly larger part of which is supplied by the 30,000 banks of the nation. And between the two there is a certain definite balance which is expressed in the general average of prices. For example, in the late War the total volume of bank credit was in the space of four or five years approximately doubled. In this same period the increase in the total amount of goods bought and sold and offered in exchange increased relatively little. The result was that the general level of prices also approximately doubled.

Now this vast expansion of bank credit under our existing system was possible only from the inflow of something like a billion dollars of gold, since no other means then existed for any considerable increase of the lawful money of reserve of the country.

This gold found its way by deposit into the banks, and in the case of the Member Banks of the System was promptly redeposited in the Federal Reserve Banks, and there became the basis for a corresponding increase of

DATE Sept. 6, 1924

OFFICE CORRESPONDENCE

TO Governor Strong

SUBJECT: The Prayers of the Bill

FROM Mr. Snyder

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bank loans. It was these bank loans which augmented the deposits of the country, which constitute for us the main sources of circulating credit. The possible expansion under the existing requirements of reserves and the ordinary accompanying need for hand to hand currency is on the order of something like 10 or 11 to 1. That is to say, every dollar of gold deposited in the Federal Reserve Banks becomes the basis for the creation of something like ten or eleven dollars of fresh credit. The process is, roughly, as follows:

If, for example, in a Member Bank of the System a deposit of a million dollars of gold is made, it may, taking the average of the reserve requirements, immediately loan out nine-tenths of this deposit, keeping back only an average reserve of 10 per cent. This loan promptly becomes a deposit either in the loaning bank or in some other. This new deposit in turn becomes the basis for fresh loans, to the amount of nine-tenths of the amount, one-tenth again being held back as the required reserve. And this process may be repeated until practically the full expansion of 10 to 1 is exhausted.

Under the provisions of the Federal Reserve Act it is at least literally possible to carry this expansion almost three times further, owing to the fact that in their turn the Federal Reserve Banks are required to keep on hand against Member Bank deposits only 35 per cent in gold. The Reserve Banks may in their turn make loans to the Member Banks, which, by becoming Member Bank deposits, afford the basis for a corresponding further credit expansion; so that in theory, at least, every gold dollar might, if there were no limiting factors, become the basis of thirty times ~~that of~~ bank credit.

the amount of

As a matter of fact, the business of the country is carried on both by means of checks and of actual hand to hand currency. And long experience has shown that between these two there is a fairly fixed and definite relationship. For many years this ratio between the total amount of demand deposits in the banks of the country and the total amount of actual money or currency in circulation among the people, outside the Treasury and the banks, is around 5 to 1.

It follows, therefore, that in the long run an expansion of, say, five millions of bank deposits will entail eventually the demand for an additional million dollars of actual currency; and as this new currency can only be supplied either by importation or from the banks themselves, a certain part of every fresh addition to the lawful reserves must be set apart for use in this hand to hand circulation.

In practice and in reality, therefore, the expansion ratio between new money of reserves and bank credit remains at something like 10 to 1.

OFFICE CORRESPONDENCE

DATE Sept. 6, 1924TO Governor StrongSUBJECT: The Prayers of the BillFROM Mr. Snyder

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In one of the ablest speeches in the debate upon the Federal Reserve Act, when its passage was pending, made by Senator Elihu Root, of New York, he advanced the objection against certain provisions of the measure, that they were essentially inflationary and would result in the creation of unutilized reserves of between a hundred and two hundred millions; and these objections were generally held as of weight. Imagine, then, what would have been the force of the objection if the amount of this possible release or addition to reserves had been on the order of 500 or 600 millions.

The total required reserves at the present time for the Member Banks of the Federal Reserve System are under 2000 millions. And on this is posited a total of bank credit close to 20 billions. The arbitrary addition of 500 millions to the reserves would, therefore, have the effect of an immediate possible expansion of not less than five billions of dollars.

Already our Reserve System is staggering under a heavy load of redundant gold and only the good sense and caution of the bankers and business men of the nation has prevented a heavy inflation of bank credit from this source alone. To add 500 millions or more of available reserves to the existing burden might easily be to court a disaster greater than anything this country has known in the last half century. In other words, the social and economic consequences that would be involved in the inclusion of the current "float," as lawful bank reserves, would be as repugnant as these proposals are to sound banking theory and practice. It would not alone dangerously weaken the position and the actual solvency of the banks of the country, but invite all the long train of evils invariably attendant upon an undue and rapid expansion of the purchasing medium, out of all proportion to the existing supply of goods.

This country has had many long and strenuous battles over the question of a sound currency, and has attained to its present unrivaled position among the nations only at the cost of many arduous struggles. Inasmuch as the actual business of the country is largely carried on by means of bank credit, it follows inexorably that sound banking practice and sound banking conditions are as vital to the nation's business and economic life as a sound currency.

That such a proposal as this, standing as it does on all fours with the wildest proposals of cheap money inflationists, should yet come from a National Bank and from an association of bankers, is evidence of how needful is the vigilance necessary to maintain our banking institutions upon a sound base.

There is yet another phase of the question which illustrates how far-reaching are the questions involved in this suit. They appertain

OFFICE CORRESPONDENCE

DATE September 9, 1924

TO Governor Strong

SUBJECT: The Prayers of the Bill

FROM Mr. Snyder

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not alone to the economic and social equilibrium of this country but, by a peculiar train of circumstances, to some extent involve international relations and the economic balance of international trade. The abandonment of the gold standard by the chief nations in the World War, still continued with but a single exception, has led in the last four years to an unprecedented flow of gold to this country. The result is that we now have something approaching one-half of the monetary gold of the world.

In a sense this is an investment, a matter of over four billion dollars. We have no need of this colossal hoard of gold. It is at the present time a deep embarrassment, and a matter of grave concern that it may not, in following the ordinary course of events, create another vast expansion which in turn must inevitably bring with it another enormous rise of prices, another orgy of boom and wild speculation, and, as always, the consequent crisis and collapse. And with all this must come all the deep social disturbance that inevitably attends a great rise of prices, all the disturbances over wages, the outcry at the high cost of living, the futile warfare upon the "profiteers" and the speculators, and then the deep resentment of those who do not well foresee what has happened and make commitments and partially paid for investments at the top of the boom.

But, far beyond all this, the United States is in some sense the custodian of this excess gold and, to an especial degree, deeply interested in the successful working of the gold standard. And as matters stand the purchasing power of gold, or the buying value of a gold dollar, is largely dependant upon the amount of credit based upon this gold in the United States. If the billion or more of excess gold were allowed to become the base of another 10 billions of bank credit in this country it would bring about another price upheaval here and the purchasing power of gold would suffer another violent decline.

If we were now to add to all this the burden of another half billion of "float," arbitrarily to be counted as fictitious reserves, it would be difficult to foresee the consequences.

It is to be hoped that the working out of the new European agreements will bring a return there to economic stability and that the continued drain of gold to the United States will cease. Otherwise, Europe would lose practically all its gold to the United States and would have little further interest in a return to the gold standard.

Present plans for economic rehabilitation in Europe may well lead to a considerable return of gold to Europe. In any event, it is the hope that the Federal Reserve System may be able to cope with the

OFFICE CORRESPONDENCE

DATE September 9, 1924TO Governor StrongSUBJECT: The Prayers of the BillFROM Mr. Snyder

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existing situation, and the present danger of another wave of heavy inflation be avoided.

It seems practically certain that this inflationary expansion could not be avoided if the prayers of the petitioners were granted and the courts were to force half a billion or more of uncollected checks and drafts to be counted a part of the legal reserve of the Member Banks of the System. It seems doubtful if any court would make effective such an order, involving such serious economic and social consequences. And if to all this be added the fact that the intent of Congress in the final amendments seems unmistakable and plain, there would be no legal grounds in equity or in the economic welfare of the country for such a decision.

HAMMER
BOND
MILIT

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 8, 1924TO Governor StrongSUBJECT: Pascagoula SuitFROM Mr. Snyder

As to the question of "float":

It does not seem to me that on the purely technical side a great deal can be added to the very clear and really quite convincing presentation made in the letter of Mr. Weed to Governor Harding.

On the economic and general side I enclose a brief outline which can, of course, be expanded by citations and specific discussion as far as may be desired.

On the par clearance question I agree with Dr. Burgess that not a great deal can be added to the material that has already been brought out in the various suits, and on the question of public utility and desirability that this has been pretty well set forth in Mr. Jay's memorandum.

Several schemes for graphic representation of the process of credit pyramiding are submitted herewith.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 9, 1924 192TO Governor StrongSUBJECT: Par Clearance SuitFROM Mr. Snyder


Burgess spoke of Mr. Baker's desire to give the case the broadest possible base, and I have added the paragraphs which begin at the bottom of page 5. Perhaps some others would suggest themselves to you.

Do you approve of this chart in its present form?

I append a second from Mr. Roberts.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 11, 1924 192Governor StrongSUBJECT: Henry Ford HospitalFROM Mr. Snyder

Will you slip this memo., with the magazine containing the article to which it refers, into your bag for possible perusal on your journey? It is an idea which has interested me very deeply and I believe is one of the coming things, and well worth considering for the Bank.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 12, 1924 192TO Governor StrongSUBJECT: Editorial FoolishnessFROM Mr. Snyder

I do not know, Sir, how to answer your question, unless it be to remind the philosopher and the sage that of the making of fools there is no end.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 12, 1924 192Governor StrongSUBJECT: Call Rates and Gold MovementMr. Snyder

The correlation between the call money rate and the change in the rediscounts of this Bank, and the gain or loss of gold by this Bank, is very notable, just as you suggest, though, as you will see at the end, there are periods when the connection seems to be lost.

But there appears to be little or no lag in these relationships, and therefore they do not offer very much opportunity for prediction. And that, of course, would be the really valuable thing.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 12, 1924 ~~QW, QOWN~~ 192TO Governor StrongSUBJECT: Price Indexes - Re. letter ofFROM Mr. SnyderSept. 10, '24 from E. S. Hale

Well, if one piece of work we did here will help the railroads to din some sense into that idiotic Railway Valuation Board, maybe it will have been worth the doing.

Actually there are a number of economists who seem to think that this particular index which we made was something very original and new, and a real contribution to economic science. But I don't suppose that counts for very much.

But I wish I could show you by figures what a very small part of the work we have done here has had to do with price indexes, although upon various demands we have made many charts of the price indexes of other people.

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

REMARKS

How can such State's
agents be allowed to write for

FROM

the press & keep misled
the public

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

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Federal Reserve Bank of St. Louis

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 15, 1924 192To Governor StrongSUBJECT: Banking SituationFROM Mr. Snyder

In view of the quotation in the "Economist," for August 16, which I sent you, from the Chase Bank Bulletin, might it not be worth while to enclose a copy of the attached to Mr. Layton, the Editor, indicating that it was simply for his personal and private use and not for quotation?

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Sept. 16, 1924

TO Mr. Harrison

SUBJECT: Governors' Meeting

FROM Mr. Snyder

RECEIVED

and noted

SEP 18 1924

G. L. H.

I laid on your desk a pamphlet from the Federal Reserve Bank of San Francisco, describing what seems to me a fine piece of work. It is an index of the variation in trade for the twelfth Federal District, and as it follows closely the lines of some work we have been doing here I naturally feel that it is a valuable contribution and one that will come to be highly regarded by the business men of that district as they become familiar with it.

This work was done in the department of Mr. Henry Breck, but if he was not to be on for the November meeting it occurred to me that probably Mr. Perrin would, and that he might well be asked to give an account of the work and acquaint the officers of the other Federal Districts of the possibilities in this direction.

It would be very hard to prepare just such an index as that for this Federal District, for the reason that, New York being the financial centre of the country, an index of clearings would scarcely be a reliable index of business conditions throughout the district. It would be essentially just New York City.

But I see no reason why each of the other eleven districts should not work up a similar index which would be a really accurate and reliable measure of business conditions in each of them. And these indexes could be compared then, one with another, and finally with the general index which we have developed for the whole country.

As there is some disposition on the part of our friends at Washington to discourage this sort of thing in the several banks, I think it would be well worth while to have the question brought up in this form.

I also left with you proofs of an article which appears in the next number of the "Harvard Business Review," describing our new Fifty Years Clearings Index of Business, based upon the results which we obtained from our composite index of the Volume of Trade.

In the next number of the "Harvard Review of Economic Statistics" I shall also describe a parallel investigation, developing a second index of Business Conditions through half a century from variations in the velocity of bank deposits, in the same way that we have worked these up for the last six years, and compared with our index of the Volume of Trade.

These two indexes in general support each other in a quite remarkable way, and we have other confirmatory material in the shape of indexes of pig iron production through fifty years, and likewise of the stock market; so that I think we may accept our results as the best measures of trade that have ever been possible over so long a period.

OFFICE CORRESPONDENCE

DATE Sept. 16, 1924TO Mr. HarrisonSUBJECT: Governors' MeetingFROM Mr. Snyder

2

I do not know how much interest there really was in the presentation of our index of the Volume of Trade at the November meeting last year, but these are things that sink in slowly and it occurred to me that it might well be worth while to give another presentation of our new indexes and show how they fit in with and are derived from those that I presented last year.

Outside of the Federal Reserve Banks this work has aroused great interest and won the recognition of the most careful investigators in this field. It seems to me it is a mistake that it should be so little known to our own people, because in time, as confidence slowly grows, my feeling is that it will prove of great value to the System, and those who conduct its affairs.

HAMMERMILL
BOND

FIFTEEN NASSAU STREET
NEW YORK

September 26, 1924

From Snyder
See Strong to
Snyder
11/3/24

Dear Governor Strong:

I have found, as perhaps you did also, that there is a good deal of the same feeling prevalent about the lowering of the discount rate and cheap money generally that George E. Roberts expressed in the talk which I told you of. For example, I found that even Prof. Chandler, who is usually pretty sound, had absorbed a good deal of this spirit and seemed inclined to question why the rates should have been reduced and what was the advantage of it, etc. And quite possibly this reflects the feeling in his and other banks.

Now, I have pretty strongly the feeling that this is a very good time to discuss and to stress the necessity of a wide variation in the rediscount rate, and that otherwise it completely fails of its purpose. So I have written a little piece which I enclose, on which I should very much like to have your judgment. I thought of using it for the Business Summary, for the Directors, and then having some extra copies made that we might use with a few of our friends if it was thought wise.

If it is not bothering you too much, would you give me your reaction and any suggestions that occur to you? I tried to make it rather brief.

The opening of the lower floor and the main entrance yesterday seemed to give a new life to things around here and caused at least one unemotional member of the staff, Mr. Dodge, to remark that, whatever else came, he should always feel very proud that he had belonged to the Federal Reserve Bank of New York.

As to the banking situation, it seems clear that the extraordinary jump in Member Bank reserve deposits last week was due to Government operations, for there is a corresponding drop this week. But the excess of reserves still remains unusually high.

There appears to have been in the previous week another rather heavy expansion of both deposits and loans, quite aside from a jump of 158 millions in Government deposits in the weekly Reporting Banks.

You may be interested in a rather noteworthy little editorial in the Saturday Evening Post, which I enclose, quite possibly written by Will Payne, who, you remember, wrote rather intelligently about Federal Reserve matters a year or two ago.

Hon. Benjamin Strong--2

I'd like to say that other people, also, can get out of sorts, as you know, and at such times little things can be bothersome. They seem to have faded. Thank you.

Tradewise, things seem to be moving along very nicely, with steady improvement, and I should imagine that the showing for September would be very good.

Hope you are having the best of that climate. We have been having some quite Colorado weather here of late.

With sincere regards,

Always yours,

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 24, 1924 192Governor Strong

SUBJECT: _____

FROM Mr. Snyder _____

I don't know if you have yet seen the full text of the Resolutions passed at the recent meeting of the American Bankers Association, relating to the Federal Reserve System. Attached herewith.

It seems to me that the misconceptions and mal-intent exhibited in the last paragraph should not go unnoticed, and at Mr. Case's suggestion I have drafted a letter which is probably far from what is wanted, but might serve as a basis of discussion.

Attached herewith.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 27, 1924 192

TO Governor Strong

SUBJECT: Report on European Currency

FROM Mr. Snyder

Conditions

You may have further information as to just what this Commission is about and what it is driving at, and therefore what kind of a letter they would like to have. If not, possibly I can find out further about it.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 27, 1924 1924TO Governor Strong
FROM Mr. SnyderSUBJECT: Robert Morris Convention at
St. Louis

Attached herewith is an invitation from the Robert Morris Convention, St. Louis. I am not averse, but our Mr. J. L. Morris, who is active in this organization, has raised the question as to expenses, whether the Bank here would regard it as of sufficient interest to do this. You could judge much better than I can as to whether this seems worth while.

10/27/24
Telephoned
Mr. Snyder that
Mr. Strong sees no
objection provided he,
Mr. Snyder, is interested
and feels that it would
be profitable to him.
M.B.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 27, 1924 192

Governor Strong

SUBJECT: A. B. A. Resolutions on

FROM

Mr. SnyderReserve System

I met Mr. Sisson, who is Chairman of the A. B. A. Committee on Resolutions, at dinner the other night, and the matter of the resolutions naturally came up. He says that that last paragraph was insisted upon mainly by M. A. Trainor, of the First Trust & Savings, in Chicago, and his assistant, Dr. Walter Lichtenstein, and some of the interior members.

Mr. Fred Kent was not present at the drafting of the Resolution, but agreed to it later. Mr. Sisson said that he tried to have it canned, but that the rest of the Committee believed something of the sort should go in.

The paragraph was actually drawn up, I believe, by Lichtenstein.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Oct. 30, 1924 192TO Governor StrongSUBJECT: Business CyclesFROM Mr. Snyder

I did not mean to ask you to sign the letter to Governor Crissinger, but merely to ask if it was quite all right that I should send it. But as you did sign it, best thanks.

As to the subject of discussion for the Statistical Dinner, on the relation of price changes and the business cycle, I don't at all share Prof. Fisher's view of a causal relationship, for I think the facts are against it, as I have set forth in the brief note to him today.

3495

READ AND NOTED.
10/31/24
E. C.

THE ROBERT MORRIS ASSOCIATES

A National Association of Financial Credit Men

Affiliated with

The National Association of Credit Men

Directors—Terms expiring 1925

A. F. BARNES
Merchants Trust Company
St. Louis, Mo.

S. L. EDDY
Ladd and Tilton Bank
Portland, Oregon.

J. J. GEDDES
Illinois Merchants Trust Co.
Chicago, Ill.

H. WARNER MARTIN
Atlanta and Lowry National Bank
Atlanta, Ga.

HARVEY E. WHITNEY
Bankers Trust Company
New York City.

President:

J. N. EATON
Merchants National Bank
Boston.

First Vice-President:
J. F. CRADDOCK
Continental & Commercial
National Bank, Chicago.

Second Vice-President:
F. S. SIBLEY
Rhode Island Hospital Trust Co.
Providence, R. I.



Research Director:

FREAS B. SNYDER
Upper Darby P. O., Pa.

Secretary-Treasurer:
ALEXANDER WALL
Lansdowne, Pa.

Assistant Secretary:
R. W. DUNING
Lansdowne, Pa.

Directors—Terms expiring 1926

V. C. BOGGS
Columbia National Bank
Pittsburgh, Pa.

JOHN C. KNOX
National Bank of Germantown
Philadelphia, Pa.

JOHN KOCH
First State Bank
Detroit, Mich.

E. N. VAN HORNE
American National Bank
St. Joseph, Mo.

C. W. VAREY
Commonwealth-Atlantic National Bank
Boston, Mass.

LANSDOWNE, PENNA. October 24, 1924.

Mr. Carl Snyder,
General Statistician,
Federal Reserve Bank,
New York, N.Y.

My dear Mr. Snyder:

The Robert Morris Associates are planning to hold their Mid-Year Meeting in St. Louis on November 17th, 18th and 19th.

As Secretary of the Organization I am arranging a program, and we would very much like to have you address us at either the morning or afternoon session of Tuesday, the 18th.

While we would be glad to leave the choice of the actual topic to you, provided you can be with us, I would suggest that our members would be very much interested in a discussion in general on the price index theory which I am afraid is very superficially understood and often imperfectly devised. Supplementing this we would appreciate very much an analysis of the present business conditions.

I very earnestly request that you give this invitation as favorable consideration as possible as many of our members are conversant with your work as a statistician of the first rank and as exactly the type of man whom we would like to have with us. May I have your decision and the exact subject of your topic, if you can accept, as soon as convenient because I wish to issue the program of the convention and the notices to members at the earliest possible moment so as to insure as large an attendance as possible.

MID-YEAR MEETING—ST. LOUIS—NOVEMBER 17th, 18th, 19th

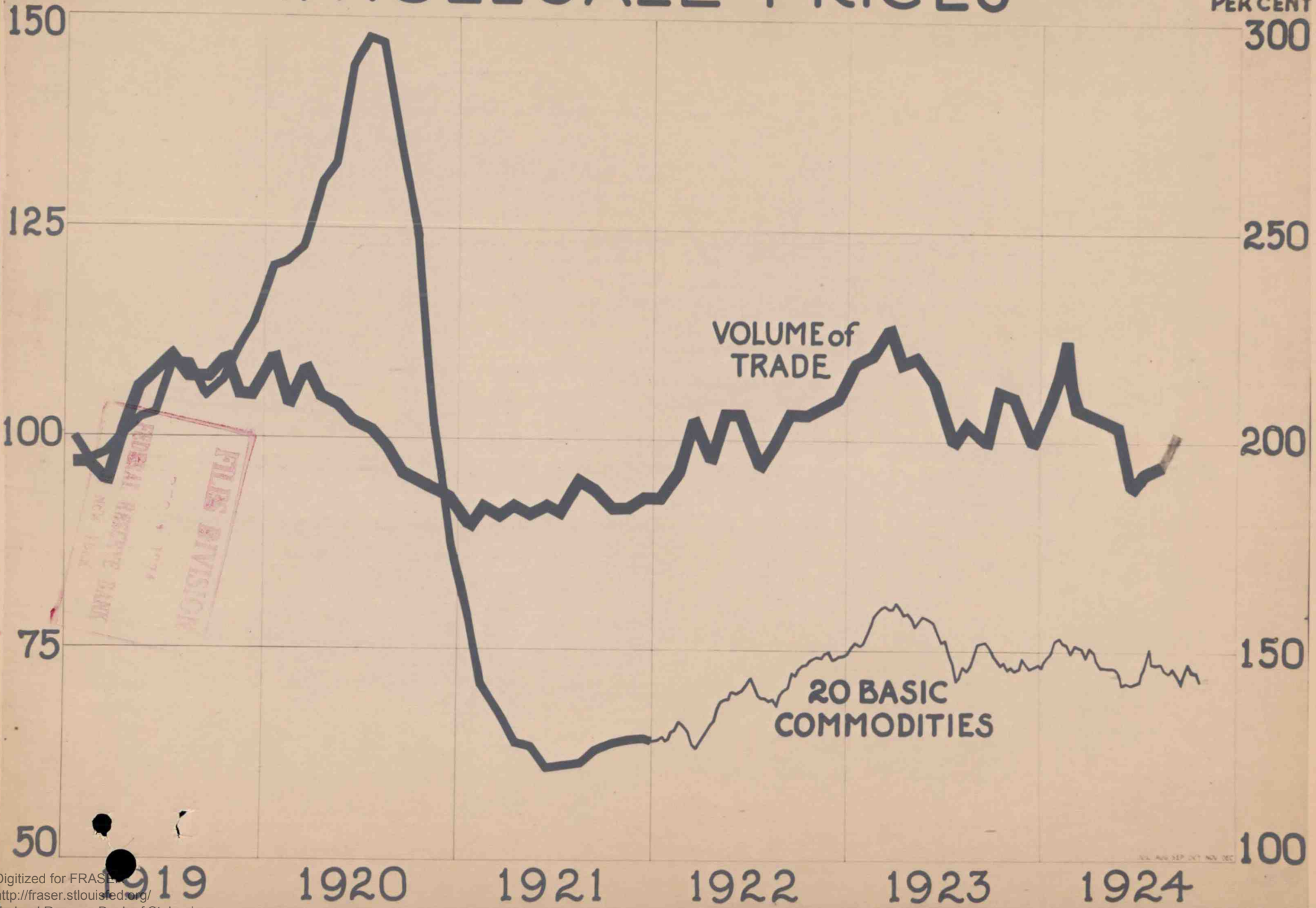
Very truly yours,

Wall
Secretary

VOLUME of TRADE AND WHOLESALE PRICES

PER CENT.

PER CENT



FEDERAL RESERVE BANK
 ST. LOUIS, MO.
 FILES DIVISION

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 3, 1984Governor StrongSUBJECT: Business ConditionsMr. Snyder

I don not know if you would care to see each month the computations as to bank debits and deposit turnover, attached herewith. They are the earliest monthly returns which give any positive report as to the drift of trade.

The most important is the index of outside bank debits, since this usually runs very close to our composite index of the Volume of Trade. But since July this index has been several points out of line with the composite index, and for the last four months has run:

July	99
August	101
September	99
October	105

The index of deposit turnover which usually also runs pretty close to the Volume of Trade is now distinctly out of line, owing to the very heavy increase of demand deposits in the last six months.

FEDERAL RESERVE BANK
OF NEW YORK

Snyder
ack 11/22/24
B.S. mbb

9171

OFFICE CORRESPONDENCE

DATE Nov. 21, 1924 192

To Governor Strong

SUBJECT: Forward Contracting

FROM Mr. Snyder

FEDERAL RESERVE BANK
OF NEW YORK
NOV 22 1924
FILES DIVISION

Your memorandum of November 17, in regard to forward contracting:

I have never believed that it would be possible to obtain very much reliable material along this line, for one thing if only that the practice of different concerns as to permitting cancellations varies so widely not merely among themselves but at different times. As to inquiries, I should like very much to consult with you as to the type of industries you have in mind. So very much would depend upon the avenue of approach as to whether the replies were of any value.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 21, 1924 192Mr. Jay *Snyder*SUBJECT: Work of San Francisco BankFROM Mr. Snyder

9184

I attach herewith an extremely interesting piece of statistical work done by the Federal Reserve Bank of San Francisco, and with this a copy of my note to Mr. Perrin about it. I saw Mr. Perrin at the Harvard Annual Conference last Saturday, and he expressed his very great appreciation of the interest we had taken in it.

It is really a first class piece of intelligent statistical work, and will provide them, I think, with a very interesting and valuable index for the 12th district. We are especially interested in it from this end because it shows that the seed we have sown is beginning to bear some fruit, even within the system itself.

RECEIVED

DEC 1 1924

P. J.

FEDERAL RESERVE BANK
OF NEW YORK

f

OFFICE CORRESPONDENCE

DATE Nov. 21, 1924 192

TO Governor Strong

SUBJECT: Letter of Nov. 18 from

FROM Mr. Snyder

Professor Bullock

I should rather like to have you see the attached, just so you
may know of the very cordial relations we have with the Harvard folk.

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NEW YORK

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GOVERNOR'S SECY.
9181
NOV 22 1924

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 24, 1924 192TO Governor StrongSUBJECT: Army War College AddressFROM Mr. Snyder

I appreciate very much the suggestion. But, first of all, those things inevitably use up a lot of valuable time, and secondly I feel that they would much prefer hearing someone new to them.

If no other name presents itself to you, I should imagine that Prof. Chandler might undertake it.

Snyder

OFFICE CORRESPONDENCE

DATE Nov. 24, 1924

TO Governor Strong

SUBJECT: Concerning Policy

FROM Mr. Snyder

NOTED,
B. S.

NOV 29 1924
FEDERAL RESERVE BANK
OF NEW YORK
READ AND
FILED
DIVISION

① It seems to me there are two or three things that a chorus of criticism from Anderson, Willis, the "Financial Chronicle," and the rest are instilling into the public mind that are extremely unfortunate. The first of these is that the Federal Reserve policy, and especially the low discount rate and investment buying and its supposed consequence of cheap money is dictated by the necessity of large earnings to meet expenses.

② The second that these large expenses are created by the "free services" that are being rendered by the Federal Reserve banks, and, by inference, that these would be greatly reduced if the free services were dispensed with.

③ The third that these free services are "competing" with Member Banks.

All of which has been highly accentuated by the very unfortunate paragraph in the Resolutions adopted at the Chicago meeting of the American Bankers' Association, which inculcated just these same ideas, and have given the critics a splendid shillalah to lay about with.

Would it not be worth while to work out exactly what these free services amount to in percentages of the total expenditure, second, as to the exact amount of competing that this results in, with Member Banks, and, because these services are relatively a small expense, relieve the banker and the public mind of the idea that Federal Reserve policy is being used to support an expensive organization?

You know it is just little things like this that the average newspaper reader catches and that stick in his mind, and I judge from little bits of conversation and things I have heard that these ideas are pretty firmly fixed in the mind of the average banker and are being disseminated by bankers quite as much as by the Vociferous Klan.

As to the effect of the Federal Reserve policy, is not the almost complete answer thereto the simple fact that what looked like, and was so freely predicted would be, a serious depression, has been averted and that in the last four or five months trade has been on the upturn and has now recovered to or above normal, in the face of the fact that the tendency of commodity prices, and especially of the great basic commodities, has been, in spite of the rise in farm products, rather downward than upward.

--As is set forth so succinctly in the chart that I attach.

Is not this a very good time to make use of what I believe is one of the most effective weapons we could possibly have in answering these criticisms, viz., our Index of the Volume of Trade. As I should like

FEDERAL RESERVE BANK
OF NEW YORK

Nov. 25, 1924

OFFICE CORRESPONDENCE

DATE

TO Governor Strong

SUBJECT: Concerning Policy

FROM Mr. Snyder

2

sometime to tell you, this index is already being used very widely by large corporations scattered over the country. It is the sort of thing that is so simple that anyone can understand it.

And I can't help thinking that if such a chart as the attached was given wide publicity it would pretty effectively knock the pack endwise.

The interest that was shown in this index and other of our indexes at the Harvard Conference, and at the St. Louis meeting which I attended is pretty clear evidence that it is something that the business man can understand and that incidentally engages his attention and interest.

HAMMER
BOMBS

NEWSPAPER REVIEW

Federal Reserve Bank of New York, Reports Department, Library

November 25, 1924

Tuesday

Vol. 5: No. 275.

FEDERAL RESERVE SYSTEM

1. Criticism. The Reserve banks have gone out of their way to do things which really belong to city correspondents, and the enormous expenses resulting from their activities have had to be borne in some way. Since member banks would never consent to tax themselves, the Reserve institutions have taxed them indirectly by an investment policy which has beaten down rates of interest and been more than hazardous for business at large. (J. of C., Ed., p. 10.)
2. Discount rates. The Treasury Department sees no occasion for a change in Federal Reserve rediscount rate levels and believes no early change is contemplated. (J. of C., p. 1.)
3. New York Bank. The resignation of Shepard Morgan as Assistant Federal Reserve Agent at the Federal Reserve Bank of New York was announced by the bank yesterday. Mr. Morgan will accept an appointment on the staff of S. Parker Gilbert. (Times, p. 37.)

UNITED STATES

4. French debt. Secretary Mellon expects an early resumption of negotiations with France for the funding of that country's war debt to the United States. There are prospects of a moratorium of several years for France in the event of funding arrangements being concluded, although there has been no official discussion of the probable course of future negotiations. (J. of C., p. 1.)
5. French loan. The new 100 million dollar issue of French Republic external loan bonds was sold yesterday at least two times over and possibly five times over. The money will be turned over to the French Government on December 9, when payment on the bonds will be made by subscribers, and will be placed on deposit in New York. (Times, p. 1.)
6. German securities. G. Henry Schroder & Company, of London, and Speyer & Company, of New York, have announced the purchase of 40 million gold mark shares of the Deutsche Bank. This represents 10 million dollars in American money and consists of stock which the bank has held since the last increase of its capital. It is the largest investment in German securities since the international loan was floated a month ago for the German Government. (Times, p. 31.)
7. Income tax. During the four months from July 1 to October 31, the Government collected in income taxes more than 430 million dollars, a decrease of but a little over 22 1/4 million dollars from the total for the same months in 1923. Despite the 25% reduction in the tax rate, therefore, there has been a decrease in actual returns of only a little over 5%, which suggests that with a continuance of good business conditions the way may be opened in the coming year to a further cut in this and other taxes. (Times, p. 1.)

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 26, 1924 192

To Governor Strong SUBJECT: _____
FROM Mr. Snyder _____

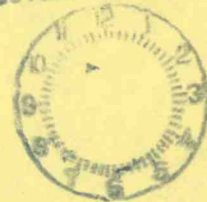
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NOV 26 1924
FEDERAL RESERVE BANK
NEW YORK

Dr. W. I. King, Prof. Mitchell's associate in the National Bureau of Economic Research, is coming in to lunch. He sometimes writes on questions of banking policy in the Federal Reserve system, and it occurred to me that it might be worth while to have a little talk with him if you were free after lunch.

Any time.

RS

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GOVERNOR'S SECY



NOV 26 1924

Gene

OFFICE CORRESPONDENCE

DATE Nov. 26, 1924 192TO Governor StrongSUBJECT: Concerning PolicyFROM Mr. Snyder

*Triller
last week.*

It occurs to me that it might well be worth while to have a talk with this Mr. William Justus Boies. You remember that for some time he wrote a very able weekly review for the former New York Sun. He now syndicates bank letters like the attached, which have a very large circulation, I should imagine second only to that of Mr. Roberts' National City Bank circular, and reaching a very fine clientele of people. I was told that at one time he was making \$30,000 a year out of this work, and I think his friendship is worth cultivating.

I am wondering if it would not also be worth while from time to time to invite in several others like, for example, Mr. Geoffrey Parsons, the Editor of the New York Tribune, a very keen and able mine, Mr. W. P. Hamilton, the Editor of the Wall Street Journal, who writes very well, David Friday, who writes often for the New Republic, Mr. James Clark, Editor of the Journal of the American Bankers Association, perhaps Mr. Elmer Youngman, Editor of the Bankers' Monthly, and possibly one or two others.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 26, 1924 192TO Governor StrongSUBJECT: Concerning PolicyFROM Mr. Snyder

2

And I suspect that Mr. Franz Schneider feels that he has been rebuffed several times when he has endeavored to see you; and he has a large and important following.

William Justus Boies
No. 14 Elm Street
Bloomfield, New Jersey

TELEPHONE 3610 BLOOMFIELD

November 22, 1924.

Personal.

Carl Snyder, Esq.,
Federal Reserve Bank of New York,
New York City.

Dear Mr. Snyder:

It was very pleasant to receive your letter of November 20 with its enclosures:

Be assured, however, that the article in the "Harvard Business Review" had come to my notice before I received the special copy from you. I congratulate you on handling so clearly a subject which is very difficult to treat in such an interesting manner.

I should like to have my name added to the mailing list for such statements and data as your department prepares. I have always been a devotee of the Federal Reserve System and shortly after the Aldrich bill was proposed, I made a digest for two different large city banks, one of which sent a copy to every bank in the United States.

It was very delightful to meet you and listen to your remarks at the Harvard Economic Conference. As soon as I can I want to come in and have a chat with you, as I am up to my ears in a new undertaking which I wish to confer with you about. The Harvard people are doing a fine work which, however, in my judgment could be vastly improved if they made an effort to lighten the load of statistics and hard business facts by making the matter more genuinely interesting for the average layman on whom they depend for financial support. Roger Babson, with all his faults, does get nearer the interest of the average business man merely because he and his associates try to speak to the residents of Main Street in the language that they can understand. However this may be the Harvard service of course is the soundest of all.

I have heard of you frequently and very pleasantly for I think we have many mutual friends. I am enclosing one or two copies of my bank letters which may interest you.

With sincere regards,

Very truly yours,

W. J. Boies

The National Park Bank of New York



New York, October 23, 1924

THE quick success of the German Government loan flotation at New York and in London has clarified the atmosphere and made it possible for the leading nations to take up the actual work of putting through the notable reforms guaranteed by the adoption of the Dawes Commission report. The fact that the \$110,000,000 American portion of this loan was about six times subscribed and that the bonds instantly commanded a premium on the stock exchange emphasizes the strong investment appeal of the issue which is in many respects "a good faith loan", the proceeds of which will be used to underwrite the solution of the most difficult economic problem that grew out of the world war adjustment. The whole world in a sense has been cheered by the outstanding success of this great loan which was by far the most interesting foreign government peace loan ever offered in the United States. With the broadest market ever enjoyed by a loan of this character, it is probable that a large portion of the American allotment will be held indefinitely by American investors for income producing purposes. This would be natural in view of the very generous income return and the sponsorship of the loan itself.

MORE FOREIGN LOANS

With the German Government loan splendidly marketed, there is likely to be several other foreign government loan flotations in this market within a few months. The authorities of France, Belgium, and various other foreign governments are said to have made overtures to American bankers touch-

ing the sale in this market of large and small loans in the near future. These foreign applications are much more comprehensive than formerly and aside from government outlays relate to a variety of industrial, institutional, banking, commercial and other requirements in the countries affected. In this way it is literally true that the United States in a certain sense is "financing the world" and that our advances for such purposes have never been as large, varied, nor important as they are likely to be from now on. There is abundant reason for this in our huge gold reserve which in the natural order of things must be to some extent depleted by these very interesting and urgent demands from abroad. This will be putting the gold to very good use and because of the great strength of our banking position there need be little fear that the expected out-flow will cause money market disturbance here. In a situation where total subscriptions of \$600,000,000 for the recently offered German Government loan brought no greater response than a 2 or 3 per cent call money rate, it is clear that the outstanding strength of our Federal Reserve System provides exceptional safeguards against unfavorable money market response.

STRONG UNDERTONE

There exists a good undertone to business and people generally are evincing a quiet confidence about the future. This has been an important influence in the election discussions for it is admitted on all sides that the highly favorable change in the position of farming communities, as compared with a year ago,

has been a large factor in the Presidential campaign. The sharp rise in the price of grain and farm products has added enormously to the purchasing power of whole communities which a year ago were hard pressed and without the means of providing the comforts of every day living. That these conditions have changed radically is shown by the September returns of the great mail-order houses which showed increased sales of 31 per cent for the month and 20½ per cent for the year. Chain stores also showed a gain in September business of 3¾ per cent for the month and nearly 12½ per cent for the year. Both systems—mail-order houses and chain stores—in the first nine months of 1924 reported a 10 per cent gain in sales over the same months last year. Some of the large department stores of this city have also made an excellent showing as compared with a year ago with good gains and increased activity in various lines. This reflects perhaps better than anything else the strong purchasing power of the people and the continued prosperity of the wage earning classes. In certain sections of the West, there have been good gains reported, the generally higher prices for grains and hogs being a large factor in the improvement. In some wholesale lines there have also been increases shown, although the movement in that quarter has been somewhat irregular owing to the drawbacks encountered in specific industries.

RAILROAD EFFICIENCY

A factor making for better conditions in the steel market has been the heavy buying of rails, cars, equipment and various supplies by the railroads. These orders within the past month have been quite exceptional and reflect a growing belief on the part of railroad managers in the continued prosperity of the country during the next six or eight months. When considered in connection with the extraordinary equipment purchases of last year, these new expenditures by the railroads emphasize the growing demands of everyday business upon our transportation service which is admittedly the largest and best in the world. During one week the past month the railroads loaded the largest number of freight cars shown in any week this year; the largest number of cars filled with mis-

cellaneous freight in any one week; the largest number of cars loaded with less than car load lot freight in any one week; and the largest number of freight cars ever moved in a single day. The harvesting sections have been provided with unusual transportation facilities this year and it is clear that the excellent service given by the railroads in the quick dispatch of freight from city to city has contributed in no small measure to the hand to mouth policy of merchandise buying. This has been a feature of the situation everywhere, the movement being strengthened, of course, by the unsettlement of cotton and other raw material prices and the disinclination of most merchants to engage in future commitments on a large scale during a heated Presidential campaign. Many roads are likely to make a highly favorable showing for 1924, although freight traffic in general during the first eight months of the year showed a falling off of 10 per cent compared with the same months of 1923.

LIVING COSTS

All nations are seeking to reduce living costs, as it is recognized that the prevailing price structure bears heavily upon the consuming classes throughout the world. The Fisher index number of American commodity prices in the second week of October was 152.5 based on 100 as the average price of 1913. This represented an advance of 2 points within a week. Crump's British index number for the same week was 162.9, also 2.1 points up for the week. The index number of wholesale prices computed by the Canadian Bureau of Statistics and weighted, covering 236 commodities fell 4½ points in September to 153.6. Some further progress has been made in reducing manufacturing costs here, this attitude being strengthened by the refusal of merchants to purchase goods at higher prices than the public is ready and willing to pay. In various lines there is evidence of growing stability and despite the fears expressed in some quarters lest our huge gold stock should lead to further inflation in this country, there are as yet no signs of a dangerous movement in that direction. Even on the stock exchange, where average prices are considerably above the low level of the year, there has been no spirited public

speculation, such as was witnessed in 1906 and other years when the carrying charges were very much above the present level. On the contrary there has been little speculation in any quarter, most buyers pursuing a very cautious buying policy.

FOREIGN COMMERCE

September developed the largest export trade, \$427,000,000, of any month since 1921 largely as a consequence of the much heavier foreign purchases of American cotton and grain. Exports of cotton which in August amounted to 277,000 bales advanced sharply in September to 737,000 bales, this total being materially larger than that shown in that month in any of the past three years. Imports in September aggregated \$285,000,000, leaving an export margin of \$142,000,000. For the nine months ending with September last there was an export excess of \$456,253,000 as compared with an export margin in September, 1923 of only \$36,000,000. This sharp advance in our export trade is all the more significant when the falling off in the gold inflow is taken into account, September gold arrivals this year amounting to only \$6,550,000 as against \$27,800,000 received in that month of 1923. The decline in sterling exchange rates after rising to the highest price since the close of August reflected the larger foreign buying of American produce. The future movement of sterling exchange will be watched with interest in connection with the further expansion of our foreign trade that is expected to follow the changes called for by the Dawes Commission report. It is too early to forecast the developments in this quarter, but it seems certain that the new order of things in Europe will bring about broader buying of American raw material and merchandise. It is probable, however, that we shall have to fight for all the business we get as a restored Germany may be expected to put up the strongest kind of a contest to win the kind of foreign business that her manufacturers can advantageously compete for at this time.

CROP GAINS

Farm prospects, except as to corn, are highly encouraging and suggest exceptional returns for the farmers as compared with

last year. The sharp advance in grain prices and in the quotations of farm products generally has led some statisticians to estimate that the producers of the United States and Canada would show increased returns this year of just about \$1,000,000,000 as compared with the harvest of 1923. While no one can tell at this time just what the increased proceeds of this year's crop will be, the gain over last year must be considerable. With favorable weather conditions and a continuance of present price schedules, the increased revenues of farmers, therefore, of the United States and Canada might easily reach the figure quoted. Corn is the only leading crop to show a falling off from a year ago, but with prices nearly 40 per cent above last year and live stock prices also considerably higher, the loss may not be as serious as seemed probable a few weeks ago. The indicated increase in the Spring wheat yield gives promise of a total wheat crop of 856,000,000 bushels which except for 1922 when the harvest was only slightly larger would show a gratifying increase over the country's wheat production in any of the last four years. The most astonishing gain in Spring wheat territory has been in North Dakota where the indicated yield this year is 115,258,000 bushels, as compared with 58,660,000 bushels a year ago. The oats crop shows a surprising gain, the indicated yield of 1,509,000,000 bushels being largely in excess of the harvest in any of the preceding four years. Barley promises a crop of 201,000,000 bushels which would be about 3,000,000 bushels ahead of last year, rye showing up 65,800,000 bushels, this being a small increase over 1923. Buckwheat, flaxseed, potatoes, and hay also promise better than last year's harvest. Tobacco is the only other important crop to show a serious loss for the year, October figures disclosing an apparent decline of 300,000,000 pounds for the year.

RESTORED BUYING POWER

These gains in the agricultural states are quite extraordinary when the depletion in foreign grain stocks is taken into account. That the American farmers are "cashing in" and not awaiting a further advance in prices is indicated by the extraordinary grain loadings reported by the railroads, the movement

in the first week of October reaching 71,134 grain cars, a total never before disclosed in any weekly period. In the same week last year only 50,032 grain cars were moved. All this means a notable increase in genuine wealth for the nation as it is estimated that those engaged in agriculture and related pursuits contribute 33 per cent of the country's buying power. These increases explain also the ability of the farmers to heavily reduce the indebtedness which oppressed them so seriously last year and which forced them to curtail usual outlays for the necessities of life. With the improvement shown in the agricultural states, numerous interior banks which at this time last year were either closed, or on the verge of suspension, have reopened and are functioning again to the benefit of an immense constituency. There is apparent evidence also that interior trade is improving and that people in many sections are displaying a confident optimism about the future. This has not shown itself in sensational gains in trade, nor an outburst of extravagant expenditure of any kind. It means to use a homely expression that the American people to a large extent are "saying nothing but sawing wood" and when they do this on a large scale they are pretty sure to achieve sustained progress in no uncertain way.

PRESIDENTIAL CAMPAIGN

Not for a quarter century or more have the American people witnessed a more extraordinary Presidential campaign than that just drawing to a close. It has been for the most part quiet, orderly and conducted in a good-natured sort of way without many clear-cut issues to excite spirited discussion. Had it not been for the third party agitation the

contest might have been a dull affair with few human interest features. The life-saver for the conservative interests, however, has been the restoration of prosperity in the Northwest made possible by the large average crops marketable at relatively high prices at home and abroad. The wonderful comeback of the Northwest and the sections generally affected has been the dominant factor making for peace and harmony in a season when the apostles of discontent were organized as almost never before. The sober second thought of a prosperous people, therefore, has successfully answered many of the arguments put forth by those who sought a change for change sake without having any very clear idea of what the new order would bring, or what reforms if any would be accomplished. A Presidential election, however, is always an important affair for the American people, but nothing has happened since the June conventions to indicate that the contest this year has been disturbing to business in any large sense. On the contrary there has been little in the movement of the security or commodity markets to remind one that a great political contest was under way and that partisan appeals through the radio were reaching the largest audience ever brought within listening distance of the voices of campaign orators. This does not mean that the campaign has not been interesting for it has been advertised and popularized in a remarkable way through the efforts made by leaders of all parties to get out a large vote and to excite the sympathy of women voters as never before. The story of the campaign in this sense has been altogether remarkable and suggestive of the inherent strength of underlying conditions and the soundness of the nation's great credit structure.

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gain for the great producing area. That the country, notwithstanding the setbacks in some industries, is developing better trade is shown by the gain in July of nearly 8 per cent. over last year in postal receipts at fifty selected cities. The country is doing a good business and, while the volume is less than last year, the American people have become cautiously optimistic within the last few weeks. Good basis exists for this feeling.

EXPEDITING FREIGHT

JUNE railroad loadings were above May, but the total for the first six months of 1924 declined 9 per cent. for the year. The transportation industry as a whole has given a good account of itself and, with the heavy marketing of wheat and corn, together with the increased business growing out of "buyers' excursions", there has been a large volume of traffic handled at the West, South and Southwest within the last few weeks. Operating revenues of Class 1 roads aggregated \$465,655,450 in June or 14 per cent. less than a year ago. Net operating income for that month of \$65,528,960 showed a decline of $25\frac{3}{4}$ per cent. for the year. The railroads earned net in June 4.05 per cent. on a property valuation of \$19,745,000,000 as compared with a return of $5\frac{1}{2}$ per cent. in June, 1923, when the tentative valuation was placed at \$19,175,000,000. For the first six months of this year, the net operating income of all Class 1 railroads was \$390,983,855, equivalent to an annual return of 4.13 per cent. In the same period last year, the annual yield was 4.94 per cent.

IMPORTANT NEWS

AUGUST witnessed growing confidence in various quarters. The Presidential campaign became somewhat more of a factor in the business situation. There was a moderate decline in employment due to the reduction of various factory forces. Other developments included:

Whole economic situation helped by the rise in commodity prices with many new high records for the year in the securities and commodity markets—July iron and steel outputs lowest in many years—Failures were more numerous and represented increased liabilities, a feature being the announcement that much of the year's indebtedness was caused by the closing of crippled banks at the West—Sharp decline in money rates with a further lowering on August 7 of the New York Federal Reserve rediscount rate to 3 per cent. the feature—Sharp advance in foreign bond prices on the belief that with the adoption of the Dawes' Commission reforms, there would be a general improvement shown abroad—United States Government bond prices touch new high level in response to a broader demand from banks and institutions having considerable money to lend—Keen interest taken in the negotiations at London to bring about general adoption of peace measures—American bankers send funds to London for employment at higher interest rates than are obtainable here—American gold stock on August 1, \$4,500,000,000, or about one-half the world's supply—Average sales of life insurance during first half of 1924 break all records at the rate of \$20,000,000 a day; this reflects national buying power.

EUROPEAN-BUYING

FOR the first time in thirteen months, our import trade in July was larger than our export trade, according to the preliminary figures given out by the Department of Commerce. This means that the movement almost balanced; it does not show that the foreign trade movement has definitely turned against this country. The slight import excess was due primarily to the \$28,000,000 decline in exports during the month, the falling off for the year having been \$24,000,000. Owing to the heavier marketing of grain at higher prices, it is expected that the export movement from now on will be more favorable to the United States. For the seven months ended with July last, there was a favorable merchandise balance of \$239,635,405, as against an import excess in the same months last year of \$127,308,455. This means that, as compared with a year ago, the foreign trade movement shows great improvement, which in the natural order of things will be more pronounced now that the allied nations have come together on the peace basis provided by the Dawes Commission report. There are large foreign buying orders ahead for our large manufacturers and producers.

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WILLIAM JUSTUS BOIES,
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Letter on General Business Conditions

September, 1924.

A MARVELOUS rise in the price of grain and farm products has been the outstanding development in the current economic situation and reflects the extraordinary change in the position of important producing states which a few months ago were in severe straits. With the exception of corn, all the leading crops promise a larger yield than last year, so that the sharp advance in prices has not been in response to unfavorable forecasts for the American crops. In other wheat producing countries, however, including Canada, there has been serious damage reported with better returns for the American farmers as a direct consequence of a serious shortage threatening abroad. Increased buying power of the farming classes which are estimated to contribute from 30 per cent. to 40 per cent. of the total, explains the larger distribution of merchandise and the increased business handled by the great mail-order houses.

BUSINESS SANITATION

THESE changes are quite remarkable and have influenced a better tone to the securities markets and with other factors, have led to a moderate rise in commodity prices. Public sentiment is more confident than it was, although the uncertainties of a Presidential year are keenly appreciated as also the continuing depression in some of the great basic industries. The Presidential campaign, up to this stage, has not disturbed

confidence as the dominant parties are not adopting sensational methods nor appealing to class prejudice. Trade on the whole is better than it was a month ago, although in some branches far below the high level of last year. The buyer still has the say in most markets, but this condition may not last long if business improves on the scale expected after Europe takes up the serious work of making effective the far-reaching reforms described in the Dawes' Commission report. The business outlook has brightened materially within a month or two and the strong points far outnumber the weak points.

NEW START

THERE is apparently excellent basis for the assertion by high authorities that "business has turned for the better". Average daily production of pig iron in July was below normal requirements, the 1,785,000 ton total being the lowest reported, except for 1921, in sixteen years. The last cotton year showed the smallest consumption since pre-war days. Volume of general production in June was the smallest since December, 1921, and figures for July will, it is believed, emphasize this trend. The "shut-down period", usual in the summer months, has been extended this year and production is being carefully supervised. The price trend is being watched constantly. Hand-to-mouth buying is still the order of the

day and the American people are living frugally, thinking carefully and for the most part doing the things which make for business stability and economic gain. Heavy marketing of new wheat and old corn have helped railroad traffic and increased the nation's buying power. Farmers are vastly better off than last year and through advances by various relief agencies numerous crippled banks in the Northwest have reopened and are functioning normally again.

FINANCING RECOVERY

IMMENSE investments of American capital are being made abroad, owing to the prospective recovery of industry in countries whose business will be greatly helped by the carrying out of the reforms guaranteed under the Dawes' Commission report. Lower interest rates here and continued influx of European gold have made more attractive opportunities for profitable dollar investments in Great Britain, France, Germany and various other countries. The American dollar is still the most sought after of all circulating media and because of our fabulous gold reserves and the fact that the United States alone, among the leading nations, adhered to the gold standard throughout the war and its aftermath, dollar remittances are popular everywhere abroad. With the prospect of an early straightening out of the reparations tangle and the reorganization of foreign industry, there has been pronounced improvement in countries which a year or two ago suffered from acute depression. The outlook in this respect is better than it has been at any time since the armistice. With the Dawes' Commission report accepted, the world is nearing a hard and fast peace basis again. This will be of immense benefit to this nation, for business everywhere has been more or less unsettled by the confusion abroad and the possibility of another outbreak in Europe.

INCREASED EFFICIENCY

THIS country has gone further in the elimination of red tape than any other nation in the world. Business methods are being simplified, industrial leaders are cutting out waste and the cost of doing business is being systematically reduced. Out of the stress of the after war readjustment and the intricacies of the European reparation and debt settlements, there has developed increased cautiousness in business affairs with the responsibility of leadership more keenly appreciated by those having to make important decisions. Automobile makers are turning out new cars only as the demand develops in the effort to avoid loading up dealers with more cars than the buying public could be expected to absorb. Manufacturers, wholesalers and merchants generally have fought shy of accumulating heavy inventories of high-priced goods so as to avoid the dangers of a possibly falling market later on. No country has developed a higher type of business management and those in charge of great enterprises prepared long ago for such a trade recession as this nation has recently passed through.

BETTER TIMES!

THE wheat belt is experiencing the best prosperity it has enjoyed in many years. Conditions have so improved within two or three months as to indicate that this year's wheat yield will be at least 28,000,000 bushels larger than the crop of 1923, instead of 93,000,000 bushels smaller, as seemed probable when the June forecast was published. Serious impairment has been indicated in Canada where black rust is said to have reduced the prospective wheat yield by nearly 150,000,000 bushels. The outlook for oats is more favorable, with an apparent gain for the year of 139,000,000 bushels and prices ruling 14 cents or more above 1923. These changes are well-nigh revolutionary, all things considered, and with the better prices for live-stock disclose a remarkable

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 28, 1924 192Governor StrongSUBJECT: Federal Reserve PolicyFROM Mr. Snyder

Here is a little note from Mr. Paul Clay, Economist and Editor of Moody's Service, which shows that we have some friends. And I imagine that we have many, even though the most of them are mute.

You will note his suggestion.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Nov. 28, 1924 192

TO Governor Strong

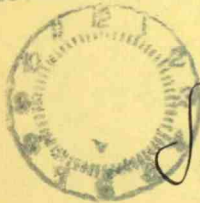
SUBJECT: Measurements of Trade

FROM Mr. Snyder

7088

As a example of the extent to which our Index of the Volume of Trade is being used commercially, I append this chart which was brought in this week by a young man from the Hudson Motor Company, of Detroit; and we have found a number of other instances.

The interesting thing about this is that they feel they can put their finger on conditions within their own plant which produce the major variations of their shipments, from the course of our index; so that they are utilizing this index as a norm of what their business ought to be.

RECORDED
GOVERNMENT DIV.

And here also is another, which has just come in!

OFFICE CORRESPONDENCE

DATE Dec. 1, 1924TO Governor StrongSUBJECT: About a DinnerFROM Mr. Snyder

I am wondering if, instead of the academic group, it might not be worth while to have quite a different group, made up more of solid business men, a banker, and maybe one or two writers, and invite thereto the three Principal Choristers, Anderson, Willis and Seibert. And have no one from the Bank but yourself.

I was thinking of such a list as, for example:

George E. Roberts

Lamont, Leffingwell or Dwight Morrow

One Director: Owen Young, Woolley or Reyburn

W. C. Mitchell

A strong business man from outside New York, like,
for example, James Simpson

A forward-looking banker like Mr. Alexander or Mr. Warburg

A manufacturer like Guy E. Tripp, Mr. Eastman or Mr. Vauclain

An enlightened lawyer who takes an interest in such matters,
like Mr. Wickersham or even Elihu Root

A newspaper editor like Geoffrey Parsons, Editor of the
Tribune

Two or three financial writers, like Franz Schneider,
Thomas F. Woodlock, Mr. Noyes and William Justus Boies

My feeling is that, to meet with a solid congregation like this, might perhaps suggest to the Caterwaulers a little better idea of their importance and mission.

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VERMILT
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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 1, 1924.

TO Governor Strong

SUBJECT: Two Problems.

FROM Mr. Snyder

Here are two little studies that have puzzled me a good deal.

I. The first is the amount of new capital issues in the U.S. by years from 1885, plotted on a ratio scale. You will note that, save for the two big years of 1917-18, the chart suggests no real financial convulsions.

Puzzle: If in and after the war the general level of prices rose, and now is, about 80 per cent. of pre-war levels, why would not this require, for the same rate of industrial growth, something like an 80 per cent. increase, over the normal trend, in the amount of new capital issues?

As there has been in recent years no such increase, does this suggest that new plant construction and industrial expansion generally has been actually far below the normal rate?

II. The average prices of industrial shares, as registered on the New York stock market, when divided by our index of general price level, show a very slow, even rise up to 1917, indicating apparently a steady advance in the relative or real value of industrial shares. But from 1917 on, this relative or real value takes a very sharp drop and is now far below the normal trend of the previous 20 or 30 years.

Puzzle: Are industrial stocks now far below their real value, and, if not, why have earnings not increased in recent years correspondingly to the rise in the general price level? Other things being equal, it would seem as if a heavy rise in the price levels should mean a corresponding increase in the average earnings on plant investment.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 2, 1924TO Governor StrongSUBJECT: History of the Bank of EnglandFROM Mr. Snyder

About the only complete history of the Bank of England is that by Andreades, who was a Greek who wrote in French, and this only comes down to 1903. I have talked with Dr. Chandler about the question, because he has been especially interested, and he says there is nothing else that is very much worth while, except interesting bits about special periods, so I have ordered the Andreades book for Governor McKinney as the best thing available.

Of course, the Keynes and Withers books have a good deal of reference to more recent history.

4

OFFICE CORRESPONDENCE

DATE _____ 192__

SUBJECT: _____

FROM _____

Governor Strong would like to know the name of that "History
of the Bank of England" that you think so well of, for Mr. McKinney

FEDERAL RESERVE BANK
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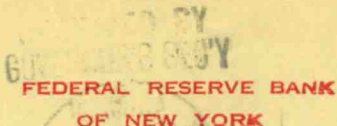
OFFICE CORRESPONDENCE

DATE December 5, 1914.TO Governor StrongSUBJECT: The Stabilized Rentenmark.FROM Mr. Snyder

To the contributory causes which you mention should be added, according to Dr. Glasenapp, the very powerful influence of the rentenmark's convertibility into gold, a feature that I was not myself aware of until I looked it up. Perhaps you would like to glance at his account of it.

The figures as to Great Britain's allied and colonial debts are attached herewith.





OFFICE CORRESPONDENCE

DATE December 9, 1924.

Governor Strong

SUBJECT: Stock Market Activity.

FROM Mr. Snyder

DEC 9 1924

It is quite noteworthy that the Times averages of 25 industrials have made no advance in the last three weeks. This is in spite of a tremendous churning of the market and sales that have broken all records. Such an arrest of the advance, with enormous sales, is usually, with the market at a very high level, the indication of a sharp reversal.

As the market is now at the highest point since 1920, and only a shade below 1919, I am wondering if this doesn't prelude a considerable decline; and whether this, if it occurs, will not put a pretty heavy damper on the much predicted and much advertised boom.

In fact, I am wondering if, instead of this boom, we may not have a rather sharp setback next year in business, just as we did at the beginning of this year, and at the beginning of 1923.

I hope not! v Really dont
BS

Thank So -

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 10, 1924.TO Governor StrongSUBJECT: Current Bank Debits.FROM Mr. Snyder

Perhaps you would like to see the chart for the year showing total bank debits, including New York City, and for 140 centers outside New York City. You will note that the main part of the run-up in November was confined to New York City.

Allowing for seasonal, outside debits for November declined, instead of rising; and I was wondering if tighter money now might not have a rather dampening effect.

Snyder

OFFICE CORRESPONDENCE

DATE December 10, 1924.

TO Governor Strong

SUBJECT: Business Prospects.

FROM Mr. Snyder

As to business conditions:

I do not get the impression from any of our indices, or any reports that we get, that there was any considerable improvement of business in November, or so far this month, over the two preceding months. On the contrary, as you will note by this morning's Business Summary, the general tendency, making allowance for the usual seasonal changes, seems to have been slightly downward.

For example, our index of ^{side}outstanding debits seems to have fallen in November by about 5 points or so. All this gives me the impression that the great wave of enthusiasm which swept the East after the election and has resulted in a great churning of the stock market, has had no response in the general state of business. If, as I think you feel, the psychological factors are very powerful, at least for the immediate movement, would not a failure of business to respond to the great hopes established in November be liable to lead to a slackening of trade, rather than the great boom that has been predicted?

You will note that our index of 20 basic commodities, perhaps as sensitive an index of business conditions as anything we possess, while it has risen a little over the low point of the year, is still below the levels of last spring. And ~~these~~ we did not consider high.

In view of the really heavy increase in deposits, and especially in demand deposits, in the last six or eight months, this seems a rather puzzling development. But when your friend Dr. A. begins to be prophetic of events, I always begin to doubt.

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DEC 10 1924

DEC 15 2 35 PM '24

OFFICE CORRESPONDENCE

DATE Dec. 15, 1924

To Governor Strong

SUBJECT:

FROM Mr. Snyder

You had to listen the other night to a very grippy and muddled speech--the world's worst, I felt--and I'd appreciate it ever so much if sometime you had the patience to look through a paper which was the background of what I was trying to say.

It was a very exasperating thing not to feel able to put your ideas together.

9/20

not so bad as you thought
I'll stay away hereafter! Do
read the attached P.S.

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GOVERNOR STRONG



DEC 15 1:24

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Dec. 18, 1924 192

Governor Strong

SUBJECT: Major Bellerby

FROM Mr. Snyder

Major Bellerby is coming for lunch today, with Prof. Mitchell and Prof. Chandler, and then I can gauge his depth a little better. I don't take it from his letter that he in any way sets himself up as an authority or an expert, and that his book is rather an effort to draw attention to the question of unemployment in its relation to the monetary problem.

But this seems to me far from an important study, and I have a feeling that if the working classes generally could get the impression that Federal bank policies are being directed towards stability of production and employment, that would be a tower of strength when the test comes ten years hence.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE Dec. 18, 1924TO Governor StrongSUBJECT: Use of our IndexFROM Mr. Snyder

Here is an interesting case of the way that some large enterprises are making use of our index of the Volume of Trade. This is the second or third case that I know of.

I think I reported to you the case of the Hudson Motor Company, and also the fact that they seem able to account, from conditions in their own plant, for the discrepancies between the run of their own business and our index of Trade; and here is another case of the same thing.

This curious synchronism of industry is the thing that is borne in on me more and more as our investigations progress, the way that whole rafts of things tend to swing together, just like the stocks on the Stock Exchange.

Of course there are wide and notable exceptions, always, but the general rule seems to be that of flocking together, up and down.

I gave public report of our index just a year ago. If it can get as much of a vogue as this in the first year, I am wondering what it may do in the next five years or ten years.

*The more its used, the more need for
bring absolutely sound! BS.*

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE December 18, 1924

TO Governor Strong

SUBJECT: Rate Making by Decree

FROM Mr. Snyder

Do you know the people on the American Banker at all? It seems to be a journal that is a great deal read by bankers.

I think the screed is worth reading with a little care, for of all the types of criticism that the system and policy have had so far, my feeling is that this is possibly the most insidious.

It is a kind of a catchword idea that can easily get under the skin of the average man, and even the serious and friendly type.

You know the "father complex," the instinct to rebel against authority, is very deep in us all, and I can't help thinking that there were phrases in the Board report of last January that maybwill come home to roost in a very uncomfortable way.

"Judgment" and "discretion" are very fine phrases, but the thoughtful man is apt to ask whose judgment and whose discretion; and if it is to be the Board's, is he not apt to remember the kind of judgment and discretion displayed in 1919 and 1920, quite unmindful that the personnal of the Board may have changed in the meanwhile? And I'd like to ask you to consider what would be your own feeling about the kind of judgment and policy that might be in evidence with you out of it!

I never felt that all the attacks of Skelton Williams and Hefflin and Price and Edmonds amounted to very much, and the recent gabble of Willis and Anderson and Seibert probably still less.

But you have yourself remarked upon the idea that the people of the country would never entrust to any board or body of men their economic welfare; and does it not seem to you that some phrases of that report came dangerously near to assuming that prerogative?

I write this because of the possibility of a renewed discussion of this problem by the Board, and in our own Annual Report.

I attach also another squib, and I believe there was still another in the J. S. Bache market letter in something of the same tenor.

OFFICE CORRESPONDENCE

DATE Dec. 22, 1924

TO: Governor Strong

SUBJECT: State of Trade

FROM: Mr. Snyder

A preliminary estimate on our Index of Trade for November shows some falling off from October--about 100 for November against 106 for October, 103 for September and a low point for the year of 94 last June.

In part this decline may be due to the fact that November had five Sundays, which is always difficult to allow for in the calculation for seasonal changes. It is evidence, I think, as to how sensitive (and how "sound"--?) this index is, that this difference of the number of Sundays in a month should frequently make a distinct difference in the average.

On the other hand, the stock indicators have reversed themselves and, instead of a decline, the market last week made a very marked advance, carrying the average of a wide list of industrial stocks, like the Standard Statistics average of 202 companies, up to about the peak figure of 1919 and some eight or ten points above the high point of March, 1923.

The average of railway stocks is now at the highest point since 1916.

In other words, the general trend has only partly followed the stock market boom, and the indications are that November saw no such great improvement as was so widely expected from the Coolidge election. On the other hand, I hear that steel bookings are very heavy and that this is one of the reasons for the continued strength in the stock market.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

RECEIVED BY
GOVERNOR'S SECY

DATE Dec. 22, 1924 192

TO Governor Strong

SUBJECT Current Bank Debits

FROM Mr. Snyder



As to current bank debits:

I attach herewith our current ^{card} ~~report~~ of bank debits for 141 centres and for 140 centres outside of New York. The figures, inclusive of New York, have been running a little high, owing probably to the stock market turnover. I suspect that the figures for this last week are also swollen by the usual tax return.

For the country taken as a whole, outside of New York, there seem no indications of any sharp upturn of business.

I just wanted the receipt —
Thank you —

FEDERAL RESERVE BANK
OF NEW YORK1423
OFFICE CORRESPONDENCERECEIVED BY
GOVERNOR STRONG
DATE Dec. 24, 1924 192

TO Governor Strong

SUBJECT: Policy

FROM Mr. Snyder

I think it would do a great deal of good if that very admirable exposition you gave Dr. Baker yesterday could somehow get into type. It is just that sort of thing that is needed, I believe.

Prof. H. J. Davenport, of Cornell University, a fine old scout and a good friend of the system, is coming in today for lunch. I'd like to bring him in for a moment just to say "How do you do."

Thank you!

Bo