

THE

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FEDERAL RESERVE BANK OF PHILADELPHIA



TOOLS OF FEDERAL RESERVE POLICY

The Federal Reserve System must approach its goal of economic stability through influencing the flow of money in relation to the flow of goods. Too much money makes for inflation, too little produces deflation. The Federal Reserve can influence spending only via the quantity of money, not how fast people use it. It can influence the quantity of money through the supply and cost of bank reserves. The major tools of policy are the discount rate, open market operations, and changes in reserve requirements. This article, the third in a series of four, describes these tools and how they are used.

DEPOSIT SURVEY

Small increase in dollar volume, slight shift in ownership during 1949.

CURRENT TRENDS

Stability is the keynote of recent weeks.

TOOLS OF FEDERAL RESERVE POLICY

If we are to maintain stable economic progress, we must base our actions on judgment with respect to the variety of economic factors which register the state of our financial and business health. We cannot rely on mechanical rules and guides. These conclusions were drawn in the second article, "Quest for Stability," which appeared last month.

The Federal Reserve System can help promote economic stability by influencing the flow of expenditures relative to the flow of goods and services. This article, the third in a series of four, deals with the instruments the Federal Reserve has available in its tool kit. The System, of course, has no direct control over expenditures. It exerts its influence indirectly through bank reserves. Because of legal requirements, the volume of commercial bank deposits—the major part of the money supply—is closely related to the quantity of bank reserves. The major tools which may be used to influence the cost and availability of bank reserves are the discount rate, open market operations, and changes in reserve requirements.

The primary objective of the Federal Reserve is to try to keep the flow of money in proper relation to the flow of goods. The decisions of millions of independent producers as to how fully available productive resources—raw materials, labor, plant and equipment—will be utilized, determine the flow of goods entering our markets. On the other hand, the amount of money available for spending, together with the decisions of millions of consumers as to what and how much they are willing to buy, determine the volume of money flowing into these markets for goods and services.

If the money flow gets out of line with the flow of goods, trouble develops. An increase in money expenditures means more demand, more purchases, and a larger output as long as business firms can increase production. However, as labor and plants become fully employed, a further rise in the money flow tends to increase prices rather than production. Rising prices and costs increase the demand for credit. More bank credit means more money to spend. Unless checked, a rising spiral of inflation may be generated. Conversely, if the money flow becomes too small in relation to the flow of goods, some merchandise is unsold, prices fall, profits decrease, and production slows down. Less employment means less income, less demand, lower prices, and so on through a downward spiral of falling prices, production, and employment. Economic stability at high levels of production and employment, then, requires a flow of money which is neither excessive nor deficient relative to the flow of goods.

The Federal Reserve cannot directly influence the willingness of people to spend the money they have. Its ability to adjust the money flow is limited mainly to its influence

over the quantity of money—primarily the quantity of commercial bank deposits. Influence over the quantity of money stems from the fact that banks are required by law to hold specified minimum reserves back of their deposits.

RESERVES AND THE MONEY SUPPLY

The money supply used in making payments includes currency, coin, and commercial bank deposits. At the end of 1949 the money supply totaled about \$112 billion, including \$25 billion of currency and coin outside of the banks and \$87 billion of demand deposits subject to check. If time deposits are included, the total money supply was approximately \$170 billion. Public preference determines the proportions of the total money supply held in the form of currency and deposits.

Both commercial banks and the Federal Reserve Banks are required to maintain certain minimum reserves. The Federal Reserve Banks must maintain a reserve of gold certificates equal to at least 25 per cent of both their Federal Reserve note and their deposit liabilities. Member banks of the Federal Reserve System are required to hold a minimum reserve in the form of a deposit in the Reserve Bank equal to specified percentages of their demand and of their time deposits. The volume of deposits is influenced both by the supply of reserves and the percentage that banks are required to maintain.

The role of reserves in the process of deposit expansion and contraction can be made clear by an illustration, simplified to show only the essential steps. Suppose (1) that the Federal Reserve, which is the primary source of reserve

funds, purchases Government securities in the open market from a nonbank holder, the result being that a commercial bank gains \$100 of reserves and deposits; and (2) that the average reserve required back of demand deposits is 20 per cent. This \$100 of new reserves created by the Federal Reserve serves as the basis for a several-fold increase in commercial bank deposits. The bank receiving the \$100 would put \$20 on reserve and would have \$80 available for new loans and investments. Suppose, next, that this bank makes an \$80 loan to a customer, crediting his deposit account. This transaction increases the bank's loans and its deposits by \$80 each. The borrower now spends the \$80. When his check is collected the bank loses \$80 of deposits and \$80 of reserves. The net effect of these operations on the balance sheet of this first bank is an increase of \$20 in reserves, an increase of \$80 in loans, and an increase of \$100 in deposits. Let us suppose that the \$80 checked out of Bank A is deposited in Bank B. When the checks are sent in for collection the result will be an increase of \$80 in Bank B's reserve deposit at the Federal Reserve. Bank B will need to keep 20 per cent of its new \$80 deposit, or \$16, on reserve and will have \$64 left for loans and investments. Assuming that Bank B makes a \$64 loan and that the proceeds are credited to the borrower's account, the result of this step is a \$64 increase in both loans and deposits. When the borrower draws out the \$64 and the checks are collected by another bank, Bank B loses \$64 of deposits and reserves. The net effect on the balance sheet of Bank B is a \$16 increase in reserves, a \$64 increase in loans, and an \$80 increase in deposits.

The waves of expansion which may take place on the basis of this initial \$100 increase in reserve funds are illustrated in the following table:

Bank	Assets		Liabilities	
	Reserves +	Loans and investments	=	Deposits
A	\$20 +	\$80	=	\$100
B	16 +	64	=	80
C	12.80 +	51.20	=	64
All other bank transactions.....	51.20 +	204.80	=	256
Totals	\$100 +	\$400	=	\$500

Total deposits of \$500 can be and usually are created on the basis of a \$100 net increase in reserves, assuming reserve requirements are 20 per cent. In the illustration, it is assumed that banks make loans on the basis of new reserves acquired. If instead, securities are purchased, the increase in deposits is the same. A net decrease in reserves would set in operation the reverse process of multiple contraction of deposits throughout the banking system.

FACTORS INFLUENCING RESERVES

The three major factors influencing the supply of member bank reserves are: (1) gold imports and exports; (2) an increase or decrease of money in circulation; and (3) an increase or decrease in Federal Reserve credit outstanding.

The Treasury adds to the supply of bank reserves when it purchases newly mined or imported gold. In payment for the gold the Treasury draws a check on the Federal Reserve and restores its deposit by issuing gold certificates to the Reserve Banks. When this check is deposited by the seller some bank receives an increase in deposits; and when this bank sends the check to a Reserve Bank for collection its reserve is increased. The net result of a Treasury purchase of gold, therefore, is a corresponding increase in bank deposits and bank reserves. The Treasury also adds to the potential supply of bank reserves when it issues Treasury currency such as silver certificates.

The Federal Reserve Banks increase the available supply of reserve funds when they make loans and investments. If member banks borrow or discount commercial paper, the proceeds are credited to their reserve accounts. When the Federal Reserve buys eligible paper or Government securities in the open market the seller receives a check drawn on a Reserve Bank. The seller, if a nonbank holder, will deposit the check in his bank, increasing total bank deposits. When the bank sends the check to a Reserve Bank for collection, its reserve account is increased by a like amount.

Not all funds supplied in these ways necessarily go into member bank reserves. There are competing uses. Additional funds may go to increase money in circulation, this being one of the most important uses. The new funds might go into Treasury cash holdings, Treasury deposits in the Federal Reserve Banks, and non-member bank deposits in the Federal Reserve Banks. Changes in member bank reserves reflect the net effects of these various sources and uses.

The major factors affecting the supply of member bank reserves may be summarized as follows:

<u>Tending to Increase</u>	<u>Tending to Decrease</u>
Increase in monetary gold stock	Decrease in monetary gold stock
Increase in Federal Reserve credit	Decrease in Federal Reserve credit
Decrease of money in circulation	Increase of money in circulation

QUANTITATIVE INSTRUMENTS

Federal Reserve instruments fall into two major categories—those which affect the volume of reserves and the money supply and those which affect the use of credit for certain purposes. Quantitative tools are the discount rate, open market operations, and changes in reserve requirements. There are other ways in which the Federal Reserve may exert some influence, such as moral suasion and changes in the eligibility requirements for commercial paper, but they are of minor importance and are not considered here.

The Discount Rate

Member banks may replenish their reserves in the Federal Reserve Banks either by discounting some of their customers' notes or by borrowing on their own notes, using Government securities or other satisfactory assets as collateral. In either case, the proceeds are credited to the member banks, increasing their reserves. The rate of interest charged for these extensions of credit by the Federal Reserve Banks is called the discount rate. By raising or lowering the discount rate, the Reserve Banks can make it more or less expensive for member banks to get additional reserves by discounting commercial paper or by borrowing.

Such changes affect the general credit situation in a number of ways. Directly, changing the discount rate merely alters the cost of getting additional reserves by these methods. An indirect effect is the tendency to bring about corresponding changes in the rates member banks charge their customers, especially on short-term loans by banks in money market centers. Changes in the discount rate, as a symbol of Federal Reserve policy, may have important psychological effects. They reflect the recognition by a group of well-informed and responsible officials of a change in the credit situation. An increase in the rate indicates official concern over credit expansion and points toward a tighter credit policy. A decrease may be regarded as an indication of an easier credit policy and possibly lower interest rates.

The role of the discount rate has varied considerably over the years. In the early history of the Federal Reserve System, when banks acquired reserves primarily by discounting, the rate was regarded as the principal tool for making Reserve policy effective. The tradition against being continually in debt to the Reserve Banks also tended to limit member bank borrowing. However, borrowing and discounting have not been major means of getting additional reserves for some time, and consequently the discount rate has played a relatively minor role. A large inflow of gold during much of the 'thirties built up substantial excess

reserves. The growth of Government security holdings in the late 'thirties and especially during the war resulted in member banks adjusting their reserve positions by buying and selling Government securities instead of by borrowing or discounting commercial paper. For this reason, the discount rate has become largely a symbol of Federal Reserve policy and a supplement to other instruments.

Open Market Operations

The Federal Reserve Banks may influence the volume of reserves by buying or selling securities and eligible paper in the open market. The bulk of such purchases and sales is in United States Government securities, although the Reserve Banks are also permitted to deal in other paper such as bankers' acceptances and bills of exchange.

Open market purchases tend to build up and sales tend to reduce bank reserves. If the transactions are with non-bank holders, commercial bank deposits are increased and decreased also. If the Federal Reserve buys \$10 million of Treasury obligations from Government security dealers, the sellers receive checks drawn on the Reserve Bank in payment. When the sellers deposit these checks, total commercial bank deposits are increased. The checks are then sent to the Reserve Bank for collection and the sending banks' reserve accounts are credited. The net result of an open market purchase is an increase in bank deposits and an increase in bank reserves. The reverse is true in the case of open market sales. Sales by the Federal Reserve are likewise made through Government security dealers, and the purchasers make payment by drawing checks on their banks. As these checks are collected the reserves and the deposits of the banks on which they are drawn are reduced. The net result for the banking system is a decrease in total reserves and in total deposits.

The initial impact of open market operations usually is felt in New York where most purchases and sales are made. The effects may then be transmitted to the rest of the country through Treasury operations and business and commercial transactions. Directly, open market purchases tend to increase reserves and deposits. Indirectly by providing excess reserves, they make possible further deposit expansion. The use banks make of their excess reserves depends upon conditions prevailing at the time. If member banks are in debt to the Reserve Banks, they are likely to use the new funds to reduce their indebtedness. If not, as is generally the case today, they usually increase their loans and investments, since idle funds earn no income. A second effect on the money market is via interest rates. System

purchases of Government securities tend to bid up their price and lower the yield. Since Treasury obligations are now the major segment of the securities market, a lower yield on them tends to spread to private securities, resulting in a general rise in security prices and a decline in yields. Moreover, excess reserves may cause member banks, especially in the money market centers, to lower their interest rates somewhat as a means of encouraging borrowing and putting idle funds to work. A change in the pattern of interest rates tends to influence the loan and investment policies of both banks and other financial institutions.

The reverse effects tend to follow System sales in the open market. The immediate effect is a decrease in deposits and a decrease in member bank reserves. The pressure on member bank reserves may cause them to raise their interest rates. Security prices tend to fall and the yields to rise, thus exerting a restraining effect on the demand for credit.

Open market operations were not an important tool during the first decade or so of the System's history. They were first used to bolster the earnings of the Reserve Banks and to build up a discount market for bankers' acceptances. It was through these operations that officials became aware of the effects on reserve positions and their value as a tool of monetary policy. Open market operations were used to offset temporary disturbances in the money market such as those arising from quarterly tax payments and the seasonal flow of currency. They were also used to influence member bank lending policies. To encourage lending, purchases were made in the open market, giving member banks additional reserves which they used frequently to reduce their indebtedness to the Reserve Banks. Because of the tradition against continued borrowing from the Reserve Banks, a decrease in their indebtedness made them more willing to make additional loans and investments. Also, member banks could usually acquire reserves more cheaply by selling securities than by borrowing or discounting commercial paper. Open market operations gradually came to be used more aggressively. Purchases were made not only to permit member banks to reduce their indebtedness to the Federal Reserve Banks; they were used to build up excess reserves and stimulate loans and investments. System sales, on the other hand, by forcing member banks to borrow from the Reserve Banks, tended to make the discount rate more effective.

In the late 'thirties, open market operations were directed toward maintaining a stable market for Government securities. Purchases were made, for example, in 1939 to cushion the decline in Government security prices precipitated by

the outbreak of the war in Europe. In the post-war period, as pointed out in the second article, the policy of maintaining a stable market for Government securities was continued because of the dangers of a disorderly market.

Change in Reserve Requirements

The third major tool which the Federal Reserve may use to influence the total quantity of credit and the money supply is authority to change reserve requirements. The Board of Governors of the Federal Reserve System has authority to vary member bank reserve requirements within certain maximum and minimum limits. The maximum and minimum limits for demand deposits are 26 and 13 per cent for member banks in central reserve cities, 20 and 10 per cent for those in reserve cities, and 14 and 7 per cent for all other member banks. For time deposits the limits are 6 and 3 per cent for all member banks. The Board has no authority over the requirements of non-member banks, which comprise about one-half of the total number of commercial banks, but have only about 15 per cent of their total deposits.

This instrument does not directly affect the quantity of member bank reserves but, instead, the amount of deposits the existing volume of reserves will support. For example, if member banks are required to maintain a reserve equal to 20 per cent of demand deposits, \$100 of reserve funds will support a maximum of \$500 of deposits; if the requirement is increased to 25 per cent, the maximum is reduced to \$400. If, however, the requirement should be reduced from 20 per cent to 10 per cent, the maximum amount of deposits which could be built up on the basis of \$100 of reserves would be increased from \$500 to \$1,000.

An increase in reserve requirements tends to limit member bank loans and investments, and a decrease tends to encourage them. The direct and immediate effect of raising requirements is to increase the amount of reserves member banks must hold. It does not affect their deposits. Initially, at least, banks with excess reserves are likely to apply them toward the new and higher requirements. To the extent, however, that member banks meet deficiencies or restore excess reserves by borrowing from the Reserve Banks or by selling Government securities ultimately purchased by the System, an increase in the amount of reserves tends to offset the increase in requirements. The restraining effects of an increase, therefore, are determined in part by the terms on which member banks are permitted to get additional reserves from the Reserve Banks.

An increase will be more effective if accompanied by a rise in the discount rate and a decrease in the System's buying price for Government securities. A second way in which an increase in reserve requirements tends to limit member bank loans and investments is through its effect on their financial position. As banks are forced to borrow from the Reserve Banks or to sell Government securities to meet higher reserve requirements, there is a growing hesitancy to increase loans and investments. Such actions would force the banks further into debt at the Federal Reserve, or force them to sell from their diminishing portfolios of Government securities. A third effect of an increase in reserve requirements is a decrease in the deposit expansion which can take place on the basis of a dollar of reserve funds. Finally, as a symbol of a stricter credit policy, an increase in reserve requirements may cause member banks to adopt more conservative lending and investing policies.

A decrease in reserve requirements has the immediate effect of creating excess reserves. The final effect, however, depends upon the policies of the member banks with respect to their excess reserves. If held idle, as often happened in the latter part of the 'thirties, there is no effect except as banks may adopt more liberal lending policies to encourage borrowing. Usually, however, the desire for income prevents banks from holding funds idle. For this reason member banks are more likely to use their excess reserves for loans or to purchase securities. In either case the result is an increase in deposits and in the buying power available for the purchase of goods and services.

SELECTIVE INSTRUMENTS

The quantitative methods discussed above operate primarily through influencing the cost, the volume, and the availability of bank reserves. They cannot be used effectively to divert the flow of credit into or from particular segments or areas of the credit market. The use of credit in certain fields may become excessive at times when general restraint is undesirable. To cope with such conditions, the Federal Reserve has been given authority to regulate the terms on which credit is granted for the purpose of purchasing or carrying securities other than Treasury obligations and other exempted issues.

The Board of Governors has authority to establish margin requirements, that is, to fix the maximum amount which the purchaser of stocks, for example, may borrow against his securities. If the margin is fixed at 50 per cent, the buyer of stocks with a current market value of \$1,000 would

have to pay \$500 in cash, and the securities could be used as collateral for a loan not to exceed \$500; if the margin were 25 per cent, the minimum cash payment would be \$250 and the amount borrowed could be as much as \$750. Margin requirements do not apply to a loan for commercial purposes even though secured by stocks. By varying margin requirements, the Board can influence the amount of credit extended for the purpose of purchasing or carrying non-exempt securities. Increasing the margin decreases the maximum amount which can be borrowed, while lowering the margin increases it.

The excessive flow of credit into the stock market in the late 'twenties was the primary reason for legislation giving the Board authority to exercise some control over the use of credit in this particular area. The collapse of the speculative boom in the stock market in late 1929 was followed by a tremendous decline in security prices. This decline undoubtedly contributed to the severity of the depression in the early 'thirties. At that time the Federal Reserve could restrict the flow of credit into speculative uses only by quantitative controls which affected the total volume of credit. Since there was little, if any, excessive use of credit for business purposes, the Board hesitated to use its quantitative tools to make credit more expensive for all purposes because of the detrimental effect it might have on business. However, these tools were finally used as a last resort. What was needed was a tool which would enable the Board to regulate the use of credit for this particular purpose.

The Board of Governors was given another selective instrument during the war and early post-war period—that of regulating the terms on which credit was granted to consumers. The purpose was to curb the use of credit for the purchase of automobiles, electric refrigerators, radios, and other durable goods which were in short supply. An increase in consumer instalment credit, by adding to consumer buying power which was already excessive in relation to the available supply of consumers' goods, would have made the problem of effective price control much more difficult.

The restraints imposed under Regulation W on instalment credit were of two types. The amount of credit that might be granted for the purchase of any listed article could be limited by increasing the amount of the down payment required. It could be restricted also by shortening the period of time during which the loan was to be repaid. The authority to regulate consumer credit expired in June 1949, leaving margin requirements as the only selective instrument still available.

COORDINATION OF INSTRUMENTS

The effectiveness of System policy, as of any other policy, depends in part upon the tools the authorities have to work with and, in part, upon the timeliness and the deftness with which they are used. The processes through which the impact of the various instruments may work themselves out has been described in the preceding section. An important problem is that of determining which instruments, either singly or in combination, will best meet the needs of a particular situation. Such decisions must be made with respect to the important characteristics, the advantages and disadvantages of each instrument, and the needs of a particular situation. Essential criteria to be considered when such decisions must be made, however, are the nature and certainty of the effects, the ability of the authorities to direct the impact into particular areas, and flexibility of application.

Qualities of Instruments

The purpose of any of the quantitative instruments is to influence directly or indirectly the volume of member bank reserves, particularly the amount of free reserves available for further deposit expansion.

One important feature of the various instruments is the nature of their direct and indirect effects. The discount rate does not affect directly either the total amount of reserves or the amount of excess reserves. It merely lowers or raises the price of obtaining funds from the Reserve Banks via loans and discounts. Just as with any other price, an increase or decrease in the discount rate tends to restrict or stimulate the demand for additional reserve funds. Open market operations affect directly both the volume of member bank reserves and deposits, purchases increasing them and sales decreasing them. The direct effect on member bank deposits is unique to this particular instrument. The amount of excess reserves is altered by changes in the total volume of reserve funds. System purchases and sales also tend to raise or depress Government security prices. Changes in reserve requirements alter the amount of required reserves but do not affect directly the total volume of member bank reserves. This tool has the unique feature of increasing or decreasing the amount of deposits which can be created on the basis of a dollar of reserves, e.g., a ratio of 4:1 if the reserve requirement is 25 per cent, and 5:1 if it is reduced to 20 per cent.

The certainty and the degree of the impact on member banks depend not only on the nature of the direct effects

but also on the secondary repercussions set up. Raising the discount rate, for example, may be regarded as a signal of tighter credit, and member banks may raise their interest rates and scrutinize loan applications more carefully. Other tools, especially changes in reserve requirements, may have similar psychological effects. It is impossible to estimate this type of effect for any of the instruments. In fact, the extent of such reactions will be influenced by business conditions and the general attitude prevailing at the time.

Open market operations, which directly affect the volume of reserves and deposits and the price and yield of Government securities, may also have significant secondary effects. System sales, for example, not only tend to depress Government security prices directly but, by creating reserve deficiencies, cause banks to sell Governments to replenish their reserves. Moreover, by affecting the interest rate structure on securities, open market operations may influence the investment policies of institutions other than commercial banks. Changes in reserve requirements, by altering the excess reserves of member banks, may indirectly influence the price of securities and interest rates. An increase may force some member banks to borrow or sell Government securities to meet the new requirements. The tendency therefore is to depress security prices and raise yields. Member banks may also raise the interest rates charged their borrowers.

Both open market operations and changes in reserve requirements alter excess reserves of member banks. With either of these tools, the degree of restraint applied depends upon how easy and expensive it is to obtain additional reserves. If banks can replenish reserves at a low cost either through the discount window or by selling securities, the restrictive effects of both instruments are seriously diminished. Moreover, both an increase in reserve requirements and System sales of Government securities tend to put pressure on the prices of Government securities, the latter directly and both indirectly by forcing member banks to sell Governments to remove reserve deficiencies.

A second important feature of the various instruments is the extent to which their impact can be directed into certain channels. The impact of changing the discount rate, by altering the cost of obtaining additional reserves, hits only those member banks which need to adjust their reserve position. An increase in the discount rate to check credit expansion, for example, would tend to affect only those banks needing additional reserves, presumably those expanding their loans and investments.

It is very difficult to determine how the effects of open market operations are likely to be distributed among the banks. The initial impact is felt mainly in the New York market because most System purchases and sales are made there. However, which banks gain or lose reserve funds depends not alone upon the decisions of the banks themselves. It depends also on the decisions of nonbank investors who may be the ultimate purchasers or sellers of the securities the Federal Reserve is selling or buying. If the customer of Bank A buys from a dealer Government securities sold by the Federal Reserve, his check drains an equivalent amount of reserve funds from the bank on which it is drawn. All that can be said about the distribution of the impact, therefore, is that it is determined by the market.

The initial impact of changes in reserve requirements can be determined with a little more accuracy. This tool may be applied to all member banks at once or to each of the three classifications—central reserve city, reserve city, and all other member banks—separately. The impact is felt by all member banks to which it applies, but is not necessarily distributed according to the degree of restraint or stimulus needed. Again, banks with excess reserves will not feel the effect as much as banks having to call loans or sell Government securities. The fact that a change in requirements is felt at once by each member bank makes this tool an effective symbol of the intention of the authorities as to credit policy.

A third important feature of the tools of credit regulation is their flexibility. Can they be applied so that the effects will be mild or drastic, as the occasion requires? In this respect, changes in the discount rate and open market operations seem to have some advantages over changes in reserve requirements. The discount rate can be a mild instrument, both because the changes made can be small and because it affects only those banks needing additional reserves. Open market operations are flexible in the sense that the volume of purchases and sales can be made in any amount according to the needs of a given situation. They are not so flexible in other respects, however. The amount of restraint which can be applied by sales is limited by the size of System holdings. At present, holdings appear large enough to meet any foreseeable need for restraint. In a period of inflation, when restraint should be applied, the securities market is usually weak. The depressing effect of System sales on Government security prices tends to limit the use of this method of applying restraint.

Changes in reserve requirements have been criticized

especially as being inflexible and clumsy. It is a clumsy instrument if changes are always made in full percentages so that relatively large amounts of reserve funds are involved. If, however, changes are made in fractions of 1 per cent, the amounts involved could be varied according to the needs of a particular situation. Frequent small changes would probably have a bad psychological effect, particularly because this relatively new instrument is little known and understood. The impact of changes can also be cushioned by giving notice of changes considerably in advance of the effective date so that member banks have plenty of time to adjust their reserve positions.

Selective instruments have both important advantages and disadvantages. They differ from the more general quantitative instruments primarily in that their chief impact is on a particular segment of the credit market instead of on the total amount. They are unique also in that, in addition to bearing on the operations of lenders, they limit directly the amount which can be borrowed. Margin requirements and Regulation W, when it was in effect, influenced the amount of credit borrowers could obtain for these purposes rather than the amount lenders were in a position to supply. By holding down the demand for credit without limiting the available supply, selective instruments do not tend to raise interest rates. They have some disadvantages, however. They affect the terms of the credit agreement and hence enforcement involves dealing with many institutions and a very large number of credit contracts. They also tend to be discriminatory in the sense that restrictions are placed on some uses of credit and not on others. Selective instruments are, however, impersonal in the sense that the same rules apply throughout the regulated sector. Neither does any central official pass upon how much business a given lender does, nor to whom credit is granted.

Selective instruments raise important questions in the administration of credit policy. They have the great advantage of permitting Federal Reserve authorities to regulate the flow of credit into specific fields. Experience demonstrates that selective tools are necessary to deal adequately with certain credit situations. They are not a substitute for but they may be a valuable supplement to quantitative instruments. They have the disadvantage, however, of being less impersonal than quantitative methods which influence only the cost, availability, and volume of reserves, leaving lenders free to decide as to both the uses and terms on which credit is granted.

Need for Coordination

Because of the differences in the ways the instruments operate, the most effective results can usually be obtained by using them in combination rather than singly. The desirability of coordinating the use of these tools in achieving certain objectives can best be made clear by drawing on experience.

Federal Reserve officials soon realized the advantages which could be derived from coordinating the discount rate and open market operations. In the 1920's, for example, they were regarded as the twin instruments of credit regulation. In 1923, 1925, and 1928 the System sold Government securities, with the result that some member banks had to borrow from the Reserve Banks. In order that the restraint induced by such sales would be more effective, the discount rate was increased to make borrowing from the Reserve Banks more expensive. On the other hand, when the System desired to ease credit somewhat in 1924 and 1927, securities were purchased in the open market thus supplying additional reserve funds. At the same time the discount rate was lowered, making it less expensive for banks to borrow and decreasing the inducement for them to use the new funds obtained to pay off their indebtedness to the Reserve Banks. These actions illustrate the use of two instruments to move in the same direction—both to apply restraint and both to encourage expansion.

Another type of coordination is the use of two instruments to move in opposite directions—one to cushion or partly neutralize the effects of the other. Open market operations and changes in reserve requirements illustrate this point. In 1937 the System increased reserve requirements to prevent excess reserves built up largely by gold imports from being used as the basis for excessive credit expansion. Even though member banks, as a whole, still had excess reserves after the increase took effect, some were forced to sell Government securities to make up reserve deficiencies. Since the purpose of the increase in reserve requirements was to eliminate the basis for a huge potential credit expansion and not to change from an easy money policy, there was no reason to penalize banks having to make up reserve deficiencies. To prevent a sharp decline in Government security prices during the transition to higher reserve requirements, the System stood ready to make such purchases as were necessary to maintain a stable market. Thus open market operations were used to cushion the effects of an increase in reserve requirements on the Government security market.

The recent post-war period provides still another illustration of coordination of these two instruments. As pointed out in last month's *Business Review*, the System's two major operating objectives during the post-war period were to check inflation and to maintain a stable market for Government securities. The strong demand for credit during much of this period induced lending agencies to shift out of Government securities into loans and other investments. In carrying out the objective of supporting the price of Government bonds, the System made large purchases which added substantial amounts to bank reserves and bank deposits. To achieve the other objective of checking inflation, the System attempted to offset the effects of these additions to bank reserves and deposits. System sales of short-term Governments and the Treasury's policy of using a large part of the cash surplus to retire short-term issues held mainly by the Federal Reserve Banks absorbed a substantial amount of reserve funds. These methods were inadequate, however, and the System increased reserve requirements to help counteract the inflationary effects of purchases made in stabilizing the Government security market.

Selective and general instruments provide another illustration of effective coordination. In 1936, business activity was moving upward and considerable progress had been made toward recovery from the severe depression of the early 'thirties. Improvement in the business situation and growing confidence led to an increase in speculation in securities. Most factories, however, were still not operating at capacity and millions were still unemployed. The situation did not call for restraint on the total quantity of credit, but rather on the growing use of credit for purchasing or carrying securities. Margin requirements were increased, limiting the amount which could be borrowed on securities as collateral, but credit continued to be available on easy terms for other purposes.

The recent war illustrates the use of a selective instrument as a partial substitute for a generally restrictive credit policy. The financing required to meet the heavy expenditures of the war was carried out partly through the sale of securities to the banking system, adding to the total money supply and the demand for goods and services. At the same time, it was necessary to convert some factories from the production of consumers' goods to the production of war supplies, tending to reduce the supply of consumers' goods available for purchase. The flow of money expenditures was increasing faster than the flow of goods. Rigid restrictions on the total quantity of credit were not consid-

ered desirable, however, because of the large amount of Treasury borrowing needed in financing the war. Limiting the use of credit for the purchase of consumers' durable goods which were in short supply would not interfere with financing the war, however. In fact, the regulation of consumer credit facilitated financing the war by limiting the amount consumers could borrow without affecting the available supply.

CONCLUSIONS

The primary task of the Federal Reserve is to adjust the flow of money so that it will contribute to stable economic progress. The volume of bank reserves is the chief avenue by which the Reserve System can influence the money supply and the money flow. Each of the instruments available to the System—open market operations, changes in reserve requirements, the discount rate, and changes in margin requirements—has certain advantages and disadvantages. In general, it seems that open market operations should be the major tool for achieving the objectives of credit policy. The discount rate is not very effective as long as the banks obtain reserves by selling Government securities. Changes in reserve requirements, unless made

by fractions so as to involve small amounts, are more suitable for unusual situations when more drastic action is needed. Frequently more effective results can be obtained by coordinating the use of two or more of the tools than from the use of any single instrument. Pressure on bank reserves, whether by open market operations, an increase in reserve requirements, or an increase in the discount rate, is relatively ineffective if the Federal Reserve allows replenishment of reserves on liberal terms. Effective restraint depends not so much on the particular type of instrument used as on coordinated action which results in making reserves less readily available from any source.

The Federal Reserve is limited in what it can accomplish through influencing the money flow. In the first place, the System can influence only one of the two determinants of the flow of money expenditures—the quantity of money but not its velocity of circulation. Second, the instruments available to the System are more effective in checking a boom than in promoting recovery from a depression. Inflation can be checked by limiting the money supply, but expansion can only be encouraged during depression by making more reserves available. It is more effective to pull on a string than to push.

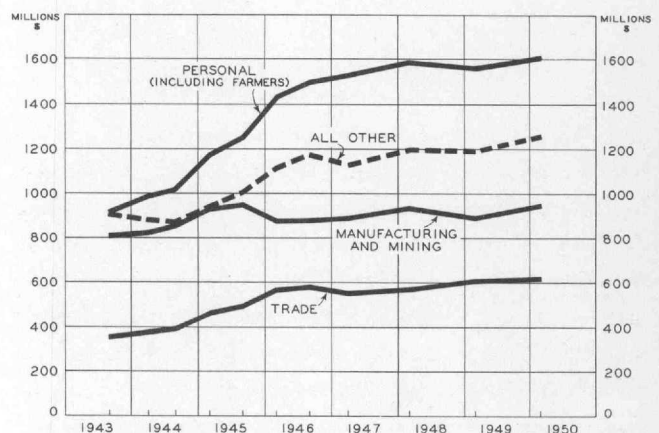
SURVEY SHOWS STABILITY OF DEPOSIT OWNERSHIP PATTERN

The annual survey of the ownership of demand deposits of individuals, partnerships, and corporations conducted by this Bank reveals comparative stability in the Third District ownership pattern between January 31 and a year ago. The proportionate distribution of deposits among the several bank-size groups also was almost identical with that of the 1949 survey. However, there was a small increase in the dollar volume of deposits and slight shifts dollar-wise among the various deposit categories.

The total volume of demand deposits of individuals and businesses held by all commercial banks in this district is estimated to have increased almost 4 per cent since January 1949. The current estimate of \$4.4 billion is based upon reports from approximately 300 member and non-member banks. Despite an economic downturn during the first part of 1949, general indicators of business show averages for the year not much below the 1948 levels. The dollar value of the nation's output of goods and services dipped only about 2 per cent.

All of the ownership groups registered dollar increases in deposits during the period January 31, 1949 to January

OWNERSHIP OF DEMAND DEPOSITS, 1943-50 All Commercial Banks — Third District



31, 1950 with the exception of public utilities, which were undertaking vast expansion programs. In the case of non-financial business, deposits of manufacturing and mining

OWNERSHIP OF DEMAND DEPOSITS

All Commercial Banks—Third District

Type of Owner	Jan. 31 1950 Millions \$	Percent Distribution		Change from Jan. 31, 1949	
		Jan. 31 1950	Jan. 31 1949	Millions \$	Per cent
Domestic business:					
Nonfinancial—					
Manufacturing and					
mining	945	21.4	20.9	+ 56	+ 6.3
Public utilities.....	234	5.3	5.6	- 2	- 0.8
Trade	616	13.9	14.2	+ 12	+ 2.0
Other nonfinancial.....	241	5.5	5.4	+ 12	+ 5.2
Total nonfinancial....	2,036	46.1	46.1	+ 78	+ 4.0
Financial business—					
Insurance companies....	124	2.8	2.6	+ 14	+ 12.7
Other financial.....	278	6.3	5.7	+ 35	+ 14.4
Total domestic business.....	2,438	55.2	54.4	+ 127	+ 5.5
Trust funds.....	200	4.5	4.7	+ 1	+ 0.5
Nonprofit associations.....	176	4.0	4.1	+ 3	+ 1.7
Personal (incl. farmers).....	1,602	36.3	36.7	+ 42	+ 2.7
Foreign	2	0.0	0.1	—	—
Grand total.....	4,418	100.0	100.0	+ 173	+ 4.1

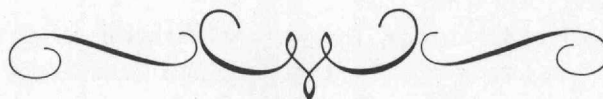
companies showed the largest gain. Their increase of \$56 million probably reflects the liquidation of inventories and a reduced rate of expenditure for plant and equipment. A similar inventory policy may be responsible in part for the

\$12 million upswing in the deposits of wholesale and retail trade firms.

Personal deposits, including those of farmers, increased \$42 million during the past year. A year earlier they had declined for the first time since 1943. The current upswing probably reflects the fact that many consumers have satisfied their deferred demands.

The 14 per cent increase in the deposits of financial business, the largest percentage change in district deposit ownership during the past year, continues the upward trend shown by this group since the surveys began in 1943. Included in the financial business category are the deposits of insurance companies and agencies, investment, finance, and real estate concerns.

The 1950 survey reveals that commercial banks with demand deposits in excess of \$100 million experienced the greatest dollar gain. Their 6 per cent increase, which also exceeds the 3 and 4 per cent upswing at banks with deposits of \$1 million to \$10 million and \$10 million to \$100 million, respectively, is due in part to the concentration of deposits of manufacturing and mining concerns in large banks. Banks with demand deposits of less than \$1 million showed a decline of 2 per cent.



CURRENT TRENDS

Stability was the keynote for the month of February, despite the impact of the coal strike. Prices were firm; industrial activity showed little change; employment, pay rolls, and production showed slight increases. Department store sales improved and construction contract awards continued above those of last year.

Although physical output, employment, and income remained below the levels of 1949, they showed some improvement for the month. In nondurable goods industries, pay rolls and earnings were above those of 1949, and employment and output were only slightly below. Activity in the industries producing durable goods remained steady. Nonferrous metals recovered from their January dip, but transportation equipment continued downward. Reports from durable goods industries in this area indicate a high level of new orders in recent weeks, a development which may be expected to sustain activity for some months.

Department store sales showed gains over the previous month and year. The year-ago increases for the district and for Philadelphia, however, reflect the effects of the transportation strike in the city from February 11 to February 20, 1949. The other five cities for which data are available showed no gain. In the housefurnishings lines, sales of major household appliances and television sets were especially high. The amount of instalment sale credit granted by department stores was more than 50 per cent greater than in February 1949.

Deposits and investments of reporting banks in this district reached their highest points of 1950 shortly after the middle of March, reflecting, in part at least, Pennsylvania bonus financing. The trend of business loans has been mostly upward this year, with the result that on March 22 they were only 6½ per cent under a year earlier as against 9½ per cent on the first report date of 1950.

In general, the improved tone of business activity seen in this district was evident throughout the nation. However, the problem of persistent unemployment, as a result of failure to absorb a growing labor force, has been of increasing concern.

SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Feb. 1950 from		2 mos. 1950 from year ago	Feb. 1950 from		2 mos. 1950 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production . . .	+ 1*	-10*	-11*	- 1	- 3	- 3
Construction contracts	- 3	+ 4	+10	+ 6	+44	+42
Coal mining	-11	-28	-28	-53	-67	-49
EMPLOYMENT AND INCOME						
Factory employment	+ 1*	- 9*	- 9*	0	- 5	- 6
Factory wage income	+ 1*	- 8*	- 9*	.....	.....	.....
TRADE**						
Department store sales	+ 3	+ 4	- 1	- 1	- 1	- 3
Department store stocks	+ 2	0	.....	+ 3	+ 1	.....
BANKING (All member banks)						
Deposits	0	+ 3	+ 3	- 1	+ 3	+ 3
Loans	+ 1	+ 4	+ 4	0	+ 2	+ 1
Investments	- 1	+ 8	+ 8	- 1	+11	+11
U. S. Govt. securities	- 1	+ 7	+ 7	- 2	+10	+10
Other	- 1	+11	+12	+ 1	+16	+16
PRICES						
Wholesale . . . . .	.....	.....	.....	+ 1	- 3	- 5
Consumers	0†	+ 2†	- 2†	0	- 1	- 2
OTHER						
Check payments	-13	+ 7	+ 8	-10	+ 7	+ 4
Output of electricity	+ 4	+ 4	+ 1	.....	.....	.....

LOCAL CONDITIONS	Factory*				Department Store				Check Payments		
	Employment		Payrolls		Sales		Stocks		Check Payments		
	Per cent change Feb. 1950 from		Per cent change Feb. 1950 from		Per cent change Feb. 1950 from		Per cent change Feb. 1950 from		Per cent change Feb. 1950 from		
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	
Allentown	0	- 8	- 3	- 9	.....	.....	.....	.....	-11	+ 7
Altoona	-3	-13	+9	-12	.....	.....	.....	.....	- 5	+ 3
Harrisburg	-1	- 6	+1	- 7	.....	.....	.....	.....	- 9	0
Johnstown	-1	-15	- 9	-24	.....	.....	.....	.....	- 7	- 9
Lancaster	+2	- 6	+3	- 8	+ 4	- 2	+20	+ 4	- 3	+24	
Philadelphia	-1	- 9	0	- 6	+ 6	+11	+14	+14	- 2	-14	+ 7
Reading	+1	- 7	+5	- 6	+13	-10	+16	+16	- 5	-12	+ 2
Scranton	+3	+ 4	+6	+10	.....	.....	.....	.....	-13	+10
Trenton . . . . .	.....	.....	.....	.....	+ 4	0	+25	+ 8	- 6	+ 4
Wilkes-Barre	0	-14	+1	-14	+ 6	- 1	+11	+11	- 2	-10	- 8
Williamsport	+1	0	+1	+ 5	.....	.....	.....	.....	- 6	+ 7
Wilmington	+3	- 5	+6	0	.....	.....	.....	.....	-18	+15
York	-2	+ 2	- 2	+ 3	+ 2	- 4	+15	+ 4	-13	- 5	

*Pennsylvania. **Adjusted for seasonal variation. †Philadelphia.

*Not restricted to corporate limits of cities but covers areas of one or more counties.

MEASURES OF OUTPUT

	Per cent change		
	February 1950 from		2 mos. 1950 from year ago
	month ago	year ago	
MANUFACTURING (Pa.)*	+ 1	-10	-11
Durable goods industries	+ 1	-14	-16
Nondurable goods industries	0	- 3	- 3
Foods	- 3	- 1	- 1
Tobacco	+ 1	- 9	-13
Textiles	+ 3	+ 1	- 1
Apparel	+ 5	+ 6	+ 9
Lumber	- 5	-13	-12
Furniture and lumber products	+ 2	+15	+10
Paper	- 1	- 1	- 2
Printing and publishing	+ 1	- 2	- 1
Chemicals	+ 1	-12	-12
Petroleum and coal products	- 5	- 9	- 7
Rubber	+ 3	- 2	+ 1
Leather	+ 1	0	- 1
Stone, clay and glass	- 1	-12	-12
Iron and Steel	+ 1	-13	-14
Nonferrous metals	+10	-15	-20
Machinery (excl. electrical)	+ 4	-21	-24
Electrical machinery	+ 1	- 8	-10
Transportation equipment (excl. auto)	- 7	-41	-39
Automobiles and equipment	- 5	+ 4	+ 4
Other manufacturing	0	-12	-14
COAL MINING (3rd F. R. Dist.)†	-11	-28	-28
Anthracite	- 6	-12	-17
Bituminous	-72	-88	-74
CRUDE OIL (3rd F. R. Dist.)††	- 2	-10	-10
CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)**	- 3	+ 4	+10
Residential	- 7	+12	+11
Nonresidential	- 4	+23	+25
Public works and utilities	+ 6	-22	- 9

*Temporary series—not comparable with former production indexes.
 **Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.
 †U.S. Bureau of Mines. ††American Petroleum Inst. Bradford field.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries*	Employment			Payrolls			Average Weekly Earnings		Average Hourly Earnings	
	Feb. 1950 (Index)	Per cent change from		Feb. 1950 (Index)	Per cent change from		Feb. 1950	% chg. from year ago	Feb. 1950	% chg. from year ago
		mo. ago	year ago		mo. ago	year ago				
Indexes (1939 avg. = 100)										
All manufacturing	113	+ 1	- 9	268	+ 1	- 8	\$53.02	0	\$1.354	+1
Durable goods industries	131	+ 1	-13	294	0	-14	58.23	0	1.478	+1
Nondurable goods industries	98	0	- 2	237	+ 2	+ 1	46.79	+4	1.204	+3
Foods	116	- 3	- 2	245	- 2	+ 2	47.09	+4	1.165	+4
Tobacco	84	+ 2	-13	192	+ 2	- 6	30.06	+9	.794	+3
Textiles	78	+ 1	- 3	204	+ 4	+ 2	47.07	+5	1.210	+1
Apparel	91	+ 3	+ 3	248	+ 7	+10	38.41	+7	.978	+3
Lumber	84	- 2	- 6	181	- 5	-12	40.06	-7	1.092	0
Furniture and lumber products	96	+ 1	+10	244	+ 3	+19	46.82	+9	1.063	+4
Paper	116	- 1	0	269	- 1	+ 5	50.05	+5	1.219	+6
Printing and publishing	131	+ 1	- 1	288	+ 2	+ 3	62.15	+4	1.679	+7
Chemicals	111	+ 1	-12	246	+ 1	-11	52.83	+1	1.313	+2
Petroleum and coal products	140	- 3	- 6	287	- 6	-10	62.20	-4	1.640	0
Rubber	126	+ 5	0	267	+ 4	+ 2	52.66	+2	1.411	-2
Leather	87	+ 1	+ 2	197	+ 5	+ 6	38.58	+4	1.079	+5
Stone, clay and glass	113	+ 1	-11	257	- 1	-11	52.00	0	1.282	+1
Iron and Steel	123	+ 1	-12	276	0	-13	60.52	-1	1.554	+1
Nonferrous metals	115	+11	-13	254	+10	-15	57.45	-2	1.446	0
Machinery (excl. electrical)	163	+ 1	-20	354	+ 4	-19	55.25	+1	1.430	+2
Electrical machinery	208	+ 1	- 7	441	+ 1	- 9	59.34	-2	1.507	-2
Transportation equipment (excl. auto)	141	- 7	-41	293	- 8	-41	63.37	0	1.570	-2
Automobiles and equipment	119	- 3	0	273	- 7	+ 9	63.03	+ 9	1.561	+5
Other manufacturing	115	- 1	- 9	237	- 1	- 8	43.24	+ 2	1.179	+3

*Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. = 100 Adjusted for seasonal variation	Feb. 1950 (Index)	Per cent change			Per cent change from year ago
		Feb. 1950 from		2 mos. 1950 from year ago	
		month ago	year ago		
SALES					
Department stores	276	+ 3	+ 4	- 1	
Women's apparel stores	214	- 4	-10	-12	
Furniture stores		+10*	+ 2*	- 3*	
STOCKS					
Department stores	237P	+ 2	0		
Women's apparel stores	214	- 7	0		
Furniture stores		+ 6*	- 2*		
Recent Changes in Department Store Sales in Central Philadelphia					
Week ended March 4				+ 6	
Week ended March 11				+12	
Week ended March 18				-14	
Week ended March 25				- 1	

*Not adjusted for seasonal variation. P—preliminary.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales		Stocks (end of month)	
	% chg. Feb. 1950 from year ago	% chg. 2 mos. 1950 from year ago	% chg. Feb. 1950 from year ago	Ratio to sales (months' supply) February
	1950	1949	1950	1949
Total — All departments	+ 7	- 1	- 3	3.4 3.8
Main store total	+ 8	+ 1	- 3	3.7 4.1
Piece goods and household textiles	-15	-10	+ 2	4.3 3.6
Small wares	+ 5	+ 2	+ 2	3.8 3.9
Women's and misses' accessories	+ 1	- 3	+ 8	4.2 3.9
Women's and misses' apparel	- 5	-10	+ 2	3.3 3.1
Men's and boys' wear	+ 7	- 1	+ 6	5.1 5.1
Housefurnishings	+29	+16	-14	3.1 4.6
Other main store	- 3	- 6	-14	3.6 4.0
Basement store total	+ 1	- 7	- 1	2.4 2.5
Domestics and blankets	- 1	- 3	-12	2.3 2.6
Small wares	+22	+10	0	2.3 2.8
Women's and misses' wear	- 2	-12	+ 7	2.2 2.0
Men's and boys' wear	+ 6	- 4	+ 1	2.9 3.1
Housefurnishings	+ 5	- 2	-19	2.1 2.7
Shoes	+ 4	- 7	0	3.6 3.7
Nonmerchandise total	+ 9	+ 1		

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales		Receiv- ables (end of month)
	% chg. Feb. 1950 from year ago	% chg. 2 mos. 1950 from year ago	% chg. Feb. 1950 from year ago
	Department stores		
Cash	- 4	- 9	.....
Charge account.....	+ 5	0	+ 3
Instalment account.....	+57	+35	+25
Furniture stores			
Cash	-18	-18	.....
Charge account.....	+14	+ 7	.....
Instalment account.....	+12	+ 7	+13

Loan Credit Third F. R. District	Loans made		Loan bal- ances out- standing (end of month)
	% chg. Feb. 1950 from year ago	% chg. 2 mos. 1950 from year ago	% chg. Feb. 1950 from year ago
	Consumer instalment loans		
Commercial banks	+85	+67	+22
Industrial banks and loan companies	+10	+ 2	+ 2
Small loan companies.....	-38	-35	+13
Credit unions.....	+35	+41	+27

PRICES

Index: 1935-39 average = 100	Feb. 1950 (Index)	Per cent change from	
		month ago	year ago
Wholesale prices—United States	189	+1	-3
Farm products.....	209	+3	-5
Foods.....	198	+1	-3
Other.....	180	0	-4
Consumer prices			
United States.....	167	0	-1
Philadelphia.....	165	0	-2
Food.....	190	-1	-3
Clothing.....	181	-1	-5
Rent.....	122	0	+1
Fuel.....	144	0	-1
Housefurnishings.....	190	0	-4
Other.....	152	0	0

Weekly Wholesale Prices—U.S. (Index: 1935-39 average = 100)	Allcom- modi- ties	Farm prod- ucts	Foods		Other
Week ended March 7.....	189	208	197	179	
Week ended March 14.....	189	209	197	179	
Week ended March 21.....	188	207	196	179	
Week ended March 28.....	189	209	197	179	

Source: U.S. Bureau of Labor Statistics.

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (Billions \$)	Feb. 22 1950	Changes in—	
		four weeks	year
Money supply, privately owned	168.5	-1.5	+2.2
Demand deposits, adjusted	84.9	-1.9	+1.5
Time deposits.....	58.9	+ .3	+1.1
Currency outside banks.....	24.7	+ .1	- .4
Turnover of demand deposits.....	18.9*	0*	+1.6*
Commercial bank earning assets.....	121.0	- .6	+7.6
Loans.....	43.3	+ .2	+1.3
U.S. Government securities.....	67.2	- .9	+5.0
Other securities.....	10.5	+ .1	+1.3
Member bank reserves held.....	16.2	- .2	-3.3
Required reserves (estimated).....	15.4	- .1	-3.4
Excess reserves (estimated).....	.8	- .1	+ .1

Changes in reserves during 4 weeks ended February 22,
reflected the following:

	Effect on reserves
Net payments by the Treasury.....	+ .2
Decline in Reserve Bank holdings of Governments ..	- .1
Increase of currency in circulation.....	- .1
Decrease in monetary gold stock.....	- .1
Other transactions.....	- .1
Change in reserves.....	- .2

*Annual rate for the month and per cent changes from month and year ago
at leading cities outside N. Y. City.

OTHER BANKING DATA	Mar. 22, 1950	Changes in—	
		four weeks	year
Weekly reporting banks—leading cities United States (billions \$):			
Loans—			
Commercial, industrial and agricultural.....	13.9	0	- 1.1
Security.....	2.0	0	+ .1
Real estate.....	4.5	+ .1	+ .4
To banks.....	.3	0	+ .1
All other.....	4.5	+ .1	+ .7
Total loans—gross.....	25.2	+ .2	+ .2
Investments.....	42.2	- .2	+ 5.2
Deposits.....	74.9	- .5	+ 2.8
Third Federal Reserve District (millions \$):			
Loans—			
Commercial, industrial and agricultural.....	495	+ 11	- 34
Security.....	39	+ 2	+ 9
Real estate.....	108	+ 1	+ 18
To banks.....	34	+ 24	+ 19
All other.....	319	- 1	+ 47
Total loans—gross.....	995	+ 37	+ 59
Investments.....	1,897	+ 76	+287
Deposits.....	3,182	+122	+267
Member bank reserves and related items United States (billions \$):			
Member bank reserves held.....	16.0	- .2	- 3.4
Reserve Bank holdings of Governments.....	17.6	- .1	- 4.1
Gold stock.....	24.3	- .1	0
Money in circulation.....	27.0	0	- .5
Treasury deposits at Reserve Banks.....	.8	+ .4	- .7
Federal Reserve Bank of Phila. (millions \$)			
Loans and securities.....	1,175	- 5	-320
Federal Reserve notes.....	1,596	- 8	- 20
Member bank reserve deposits.....	766	+ 23	-153
Gold certificate reserves.....	1,321	+ 24	+130
Reserve ratio (%).....	53.2%	+ .3%	+ 8.8%