

REICHSBANK OPERATIONS

1876 - 1914

INTRODUCTION

- A. Two-fold purpose of this discussion
 - 1. Methodology of research illustrated
 - 2. Develop general principles of central banking
 - 3. Only casually concerned with episode per se
- B. How I got interested in the problem
 - 1. Request for memorial article for H. G. Brown
Had many fragments on Reichsbank - first met
Haggott in Berlin in 1932-33
 - 2. Initial assumptions:
 - a. Control over reserves of banks the key - Keynes, Harris
 - b. The Reichsbank one of the great central banks
 - 3. Therefore problem became how did Reichsbank control
reserves of commercial banks
 - 4. Disillusionment
 - 5. Bank of France article for H. G. Brown
- C. Impelled to return to Reichsbank study

I. Proof that Reichsbank did not control
reserve balances of member banks

- A. Did not publish data on except occasionally
Why? Management did not focus attention on
- B. Could not have controlled at predetermined level
had it wished to do so
Why not? Table VI p. 73
- C. Control of balances (even if possible) not = to
control over primary reserves
- D. Variable primary reserve proportions by German
commercial banks

II. An alternative solution: The Reichsbank was weak

- A. That was Keynes conclusion
- B. But it achieved the primary purpose through some difficult times throughout the period - convertibility!

III. Another alternative: Rationing - qualitative control

- A. Tempting appeal of this alternative
Whatever we cannot explain on the basis of objective evidence, we attribute to variations in administration of discounting - about which unfortunately we have no precise knowledge. It simply must have been true - BUT was it so in fact?
- B. No direct conclusive evidence
Rules published but what about administration of them?
Annual reports - barren
Steno. Reports of Reichstag - how I chanced on them

C. Circumstantial evidence - discount procedures

1. Relation of head office to the branches

a. Relative importance of the two

(1) No. of branches:

1876 - 182 branches
1914 - 487 "

(2) Relative volume of business

	Head Office	Branches
Bills bought	20%	80%
Average holdings	6-8%	92-94%

i.e. Head office bought shorter bills

b. Control over the branches

- (1) Annual conferences and reports
- (2) Approval of larger lines of credit
- (3) Compensation of branch managers
 - (a) Reasons for method of sharing profits
 - (b) Implications
 - (c) Evidence of implications
Complaints of customers that they are required to discount.

2. Relation of Reichsbank to money market - note p. 9

a. Relative magnitudes

- (1) Volume of bills drawn in Germany
- (2) Volume purchased by Reichsbank
- (3) Volume held by Reichsbank
- (4) Conclusions:
 - (a) Always enough more to expand
 - (b) Always held enough to contract

b. Procedural matters

- (1) Large commercial clientele as well as bankers and Government
- (2) Collecting agency
- (3) Many second-grade bills

c. Statements of Reichsbank officials

- (1) von Dechend p. 25
- (2) Havenstein "
- (3) R.B. I p.28

d. Assumptions on which bankers operated

- (1) Deutsche Bank p. 26
- (2) Dresdner Bank "
- (3) Contrast with J. W. Gilbert p. 27
- (4) Implications

D. Conclusion:

Reichsbank did not use qualitative controls

IV. Rate policy and the cost of credit

A. Statements on importance of the Rate by top officials p. 29

B. Four periods in rate history

1. Aftermath of monetary reform
2. Early 1880's to middle 1890's
3. Rapid expansion middle 1890's to 1907
4. Crisis and reappraisal of policy

D. Aftermath of monetary reform

1. Michaëlis theory of an automatic rate
2. Large total and small gold reserves

D. Easy money and preferential rates 1880-1895

1. Background

- a. Slow economic development
- b. Large Reichsbank reserves
- c. Common official rate 3%
never beyond 5%
preferential as low as 2%

2. Reichsbank and independent banks of issue

a. Theory

- (1) Other banks would operate for profit
and . . . might exceed limit
- (2) Reichsbank would operate in public interest
and . . . would not - except in emergencies -
exceed its limit

b. Operation

- (1) Full investment policy of private banks
- (2) Public service of Reichsbank

c. Complaint of Reichsbank and lack of comprehension;
full investment policy of others increased
Reichsbank control

It introduced preferential rates and thereby
aggravated ease in market - when it thought
market already too easy

Idle real resources vs.
Idle cash reserves in Reichsbank p. 37-38

E. Rapid expansion 1895-1907

1. Background

- a. Rapid economic development
- b. Rate as low as 3% uncommon;
rates beyond 5% frequent
- c. Decline in reserve ratio of Reichsbank

2. Seasonal variations

a. Causes

b. Widespread recognition of necessity of meeting

c. Evidence the actions were not in line with theory (p. 45)

d. Why not?

- (1) Rapidity of secular growth obscured
- (2) Fear that international crisis might come
in fall and threaten convertibility
- (3) Latent concern about issuing taxable notes

e. Attempts to solve

(1) Discounting versus Lending (Lombarding)

(a) Differences between

(I) at official rate + $\frac{1}{2}$ - 1%

(II) to maturity for exact period needed

(III) collateral for notes not eligible as collateral

(b) Results:

Discount short bills

Borrow rather than discount long bills

(2) Require borrowing for min. no. of days: 3,5,8,14 days

(a) Results:

(I) Continue to borrow, but lend funds as repaid

Strains were followed by extreme care

(3) German Bank Inquiry of 1908 (p. 50)

(a) Increase fiduciary limit at quarter days

Regular limit M550 million

Quarterly " M750 "

(4) May, 1911 - Loewe suggestion - make borrowing more expensive

(a) Charge interest for 10 days + time used

(b) Results:

(I) Discount long bills (p. 52)

(II) Borrow before the 27th of the month

(5) New Loewe suggestion:

(a) Make discounting more expensive too

(b) Not followed

(c) Implications if it had been

(I) Market had to have funds somehow and yet

(II) Make more expensive each method used

F. Crisis and reappraisal of policy

V. Integration into general principles of central banking