ADDRESS OF CHARLES S. HAMLIN

Maine Bankers' Association, Poland Springs, Maine, June 22, 1929.

Mr. Hamlin said in part:-

Let me state at the outset that what I have to say this evening represents merely my personal views, and that I am not in any sense speaking for the Federal Reserve Board.

Banking developments during the past year have attracted more general attention, and caused more discussion, than at any time since the foundation of the Federal Reserve System, excepting only the years 1920 and 1921. We hear, on the one hand, statements as to unbridled security speculation and inflation, and on the other a denial thereof, coupled with censure of the Federal Reserve System for an alleged desire to break down the stock market. On the one hand we hear, as I have said, the charge of inflation which must be controlled, and on the other the claim that natural courses should be allowed to take care of the situation.

The Federal Reserve System, meanwhile, has confined itself to a critical supervision and regulation of the use made by member banks of Federal Reserve credit, with a result which most reasonable men will admit has been successful, and which has cleared up to a measurable degree a situation fraught with danger if allowed to continue unchecked. I shall not attempt here to characterize present or past conditions as disclosing expansion or inflation, but will content myself with stating a few facts which, in my opinion, justify the firming policy, including direct action, so-called, of the Federal Reserve System in connection with member bank credit developments.

I wish, however, first to state that, speaking generally, there is no undue expansion or inflation in commodities. I want also to point out that in considering expansion or inflation, it is not accurate to take one year as a test. In dealing with this matter I will take a period covering the years beginning with 1922 through 1927 or 1928, and later consider present conditions in this year.

Leaving aside the question of commodity speculation, which, as I have said, can hardly be said to exist today, I want to call attention to the startling growth of security loans, (including speculative loans), compared with commercial loans, during the period of 1922 to 1928.

During this period, security loans of reporting member banks, including in this category so-called speculative loans, increased from 3.6 billions to 7.5 billions, - an increase of 3.9 billions or of over 100%; on the other hand, commercial loans increased from an average of 7.4 billions to 8.7 billions, - an increase of 1.3 billions or only 18%.

During the same period, the percentage of security loans to total loans and investments increased from 25% to 34%, while the percentage of commercial loans to total loans and investments decreased from 51% to 39%.

Member bank reserves during this period increased from an average of 1.7 billions to 2.4 billions in January, 1928, - an increase of 700 millions, or 40%.

Federal Reserve credit for the whole System was, in December, 1928, over 1.8 billions, taking daily averages, while the corresponding figures for the earlier years were:

1922	------	1.3 billions
1923	------	1.2 "
1924	------	1.2 "
1925	------	1.5 "
1926	------	1.4 "
1927	------	1.5 "
1928	------	1.8 "

Prices of 410 stocks combined were 58.7 in 1922, and in January, 1929, had increased to 183.6.

Whether or not the above figures can be characterized as expansion, undue expansion, or inflation, it must be evident that they were made possible by an increase in the volume of credit used for certain purposes in excess of the amount of things available in these lines, resulting in competitive bidding for a limited supply, thus increasing prices in some cases, at least, to an abnormal extent.

It must be evident that such a condition of member bank credit, whether caused by speculative loans, whether in commodities, real estate, or securities, was one demanding careful attention by the Federal Reserve banks, and one which required control, whether by way of rate increase or by other action.

How far Federal Reserve credit was responsible for this expansion is an interesting question which I shall not attempt to solve in this connection, except to express my opinion that the expansion was largely generated through gold imports and therefore that Federal Reserve credit, on the whole, was not responsible for it. There were, however, three periods when the purchase of Government securities by Federal Reserve banks placed money in the market, a material portion of which went into the member banks reserves, and was expanded upon in the ratio of almost 15 to 1. These periods were from February to June, 1922, from April to December, 1924, and from February to December, 1927. If we assume, therefore, that the Federal Reserve System is responsible for the increase in Federal Reserve credit during these three periods, we still should not forget that agriculture and business received material benefit from this expansion, and that at the same time it rendered service to Europe in adopting sound monetary policies along the lines of ~~credit~~ stabilization.

During the latter part of 1927 the Federal Reserve System began a firming policy, and ceased to offset gold exports by buying Government securities; during 1928 the System made three increases of discount rates; it also from time to time sold Government securities, thus further tightening the pressure upon credit.

Early in this year the total amount of Federal Reserve credit outstanding was, as I have before stated, about 1.8 billions of dollars as compared with about 1.5 billions the year before, and many feared that instead of the customary liquidation after the first of the year there would be further expansion, and that member bank credit developments needed careful supervision and control.

I think it will be generally agreed that, apart from speculative loan activities, agriculture and business would be entitled to a lower rate, rather than to an increase over the present rate of 5%, and that the problem is how most speedily to adjust matters so that in the near future agriculture and business would be getting the benefit of this lower rate.

Representations were made that the speediest way to obtain lower rates for agriculture and business would be to adopt a policy of affirmative rate increases beginning at 6% and increasing until the speculative use of Federal Reserve credit had subsided, and then reversing the process, gradually reducing rates until they could safely be put below the present rate of 5%.

Many of those who advocated this view perhaps unconsciously felt that it was the duty of the Federal Reserve System to correct the situation on the stock exchange by a series of quick incisive increases of discount rates. This feeling was expressed by the English paper, the Manchester

Guardian Commercial, of March 28, 1929, as follows;

> "There appeared at least some slender hope that the Federal Reserve authorities were meditating action drastic enough to precipitate the crisis in Wall Street which, in the opinion of most monetary students, must come sooner or later."

On the other hand, it was claimed that the Board had no duty to make such a direct attack on speculative activity on the stock exchange in this drastic manner, and it was further pointed out that these violent speculative activities in a material degree were dependent upon other factors than Federal Reserve credit. It was finally decided that the real problem was the prevention of the diversion of Federal Reserve funds into the speculative markets, retaining discount rates at the existing rate of 5%.

To this end the Board called upon the Federal Reserve banks and the member banks to cooperate in stopping the growth of speculative credit, thus incidentally setting forces in motion which would probably bring about some reasonable liquidation of existing credits, but no drastic reduction of existing speculative credits was asked for or expected.

It was pointed out that many member banks have been frequent or continuous borrowers from the Federal Reserve banks, and that they were in effect securing, through rediscounts, capital loans taken out of the common fund built up by our member banks, and intended only for use for seasonal or emergency requirements; that capital thus acquired used in competition with the other member banks who were unfrequent borrowers, amounted to what in trade would be called "unfair competition." The Board pointed out, however, that there were many occasions where banks were in a difficult position because of crop failures, sudden loss of deposits, or general economic depression, where the above rule against capital borrowing could not be strictly applied, at least for considerable periods, but the general principle was laid down. It should be remembered that while attention was called to the growth of speculative loans which, in part, depended upon Federal Reserve credit, the rule would be the same whether the expansion was based on commodity or other forms of speculative loans.

The banks, speaking generally, cooperated with the efforts of the Federal Reserve Board and the Federal Reserve banks, and it is interesting to see the progress since the first of this year which has been made under the firming policy and so-called "direct action." Taking the January, 1929, average and comparing it with June 12, 1929, we find that security loans for reporting member banks have decreased from 7.5 billions to 7.2 billions, a reduction of 297 millions; commercial loans, on the other hand, for the same period, increased from 8.7 billions to 9.1 billions, the increase being 361 millions.

Member bank reserves, for the same period, decreased from 2,387 millions, the average of January, 1929, to 2,331 millions for the week ending June 15th, a decrease of 56 millions.

The percentage of security loans to total loans and investments decreased during this period from 33.6% to 32.6%, while the percentage of commercial loans increased from 39.4% to 41.4%. Taking the figures as to Federal Reserve credit for the entire System, we find that comparing the average for January and May, 1928, with the same periods in 1929, that Federal Reserve credit had increased in May, 1928, by 84 millions, while taking the same dates in 1929 we find that Federal Reserve credit decreased 310 millions.

While the above decline in Federal Reserve credit was brought about chiefly by the seasonal return flow of currency and gold imports, it is nevertheless true that in the absence of direct pressure, some part of the funds released through the inflow of gold, would have found its way into member banks reserve balances, and would have formed the basis of further expansion, and that, as shown above, the direct pressure reduced the member bank reserve balances by about 50 million dollars between January 29, 1929 and the week ending on June 15, 1929.

The Federal Reserve System, therefore, has taken an effective control of the situation without increasing discount rates, and in the control thus exercised through the medium of direct pressure, the System has established a new technique, which shows that diversion of Federal Reserve credit into speculative channels may be curbed without serious injury to agriculture and business.

While it is true that although the Federal Reserve rate has not been increased during this period, customers' rates charged by member banks have increased about 1%, it is also true in my opinion that this increase in customers' rates was brought about by the competition of the high rates offered for funds in the speculative market. It is also true that the firming policy of the Board, including direct pressure, has brought pressure upon speculative loans with three times the force, thus tending to relieve agriculture and business.