

## The Papers of Charles Hamlin (mss24661)

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Hamlin, Charles S., Scrap Book – Volume 161, FRBoard Members

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BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date June 26, 1941

To Files

Subject: \_\_\_\_\_

From Mr. Coe

After correspondence with Mrs. Hamlin (see letters of May 25 and June 4, 1941) the items attached hereto and listed below, because of their possible confidential character, were taken from Volume 161 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 161

- Page 23 - Letter to Governor Crissinger from I. L. Lenroot re speculation in New York Stock Market.
- Page 29 - Deficiencies in Reserves of Member Banks for Month of April 1926.
- Page 47 - Earnings and Expenses of Federal Reserve Banks, May 1926.
- Page 73 - Report of the Chairman to the Open Market Investment Committee.
- Page 75 - Report on Foreign Accounts to members of Open Market Investment Committee from G. L. Harrison.
- Page 79 - Report of the Secretary of the Open Market Investment Committee Meeting at Washington - June 21, 1926.
- Page 83 - Minutes of Joint Meeting of the Open Market Investment Committee and the Federal Reserve Board held in Washington, Monday, June 21, 1926.
- Page 142 - Memo to Mr. Hamlin from Mr. Goldenweiser re reserve deposits of member banks.
- Page 143 - Copy of letter to L. T. McFadden from Governor Crissinger answering certain inquiries about F.R. note issues and reserves against deposits.
- Page 148 - Member banks borrowing continuously in excess of capital and surplus during May 1926.
- Page 150 - Memo to Mr. Hamlin from Mr. Smead discussing Mr. Goldenweiser's book on the Federal Reserve System.
- Page 151 - Memo from Mr. Goldenweiser to Mr. Hamlin re Reserve Position of Federal Reserve Banks on April 28, 1926.
- Page 152 - Memo to Mr. Hamlin from Mr. Goldenweiser discussing prices on New York Stock Exchange.
- Page 153 - Schedule furnishing statistical figures requested by Mr. Hamlin, prepared by Mr. Goldenweiser.
- Page 155 - Memo to Mr. Hamlin from Mr. Goldenweiser furnishing statement about business and banking developments from 1920 to date.

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UNITED STATES SENATE

November 23, 1925.

Honorable D. R. Crissinger,  
Governor, Federal Reserve Board,  
Treasury Department,  
Washington, D. C.

My dear Mr. Crissinger:-

I have noted with growing anxiety the steady increase of speculation in the country, more particularly centered in the New York Stock Market, which has for some time been engaged in positive gambling in securities. I do not believe that this speculation has as yet very considerably penetrated the commodity and production activities of the country, but it is inevitable that the infection of speculation unless checked will spread into the industrial activities of the country. It then means inflation, with inevitable collapse, which will bring the greatest calamities upon our farmers, our workers, and legitimate business.

It appears to me that there is a parallel with the situation early in 1920 when the Board failed to agree upon action until the situation became beyond control. It further appears that most of the reserve banks throughout the country have felt some alarm at the situation and have raised their rates accordingly, but New York, which is the real center of this speculation and inflation, has as yet taken no action.

I have no thought to interfere in any way with the functions of the Board, or even to make any inquiries which may embarrass the Board, but as a supporter of the System, I am deeply anxious for its success, and in order that I may be prepared for such discussion as may arise in the Senate, I am wondering if the Board would furnish me with the following information:

1. Does not the present cheap money induced by the low discount rates indirectly stimulate speculation on the New York Stock Exchange?

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2. Has there been any indication during the last few months that the interior banks are withholding liquidation of rediscounts and at the same time seeking the higher return by loans on the New York Stock Exchange? Has the Board any way to determine if the banks are borrowing from the Federal Reserve to make such loans?
3. Has there been any increase in discounts at the New York Reserve Bank since the rate was last set?
4. Has the New York Federal Reserve Bank made any attempt to reduce its rediscounts and has it reduced its holdings of government bonds as a check on the situation?
5. Will the Board kindly supply me with such statistical data as it may be able showing what is the movement of loans and investments, showing separately the movement of investments, collateral loans and commercial loans as at July, 1924, January, 1925, July 1925, and the latest date for which approximate figures are available for all banks of the country on which the Board has information?
6. Also figures showing the movement of federal reserve investments for the same dates, showing separately the items of open market investment and rediscounts secured by government obligations, and discounts and acceptances?
7. Figures showing the movement of open market rates on commercial paper and bankers acceptances, also the rates charged customers in the leading competitive banking centers at the same dates as in the above questions. Also the rates of rediscount charged by the Federal Reserve banks on rediscounts and acceptances purchased for the same times.
8. Does the Federal Reserve Board get any figures, and if not, has it any estimates, as to the amount of time or call money furnished to the New York Stock Market? If not, can the Board furnish me with some estimate as to the volume of such money at various periods since January, 1925.

In an article in the New York Times of the 21st I observed some indication that there are understandings between officials of the Federal Reserve Bank of New York and with offi-

cial of the Bank of England. I am, of course, aware of the exchange guarantee entered into by the Federal Reserve Banks, but I would be glad to know what the character of such other understandings or discussions is, if any such exist.

My anxiety over this situation is very great, for, as you may remember, I was a member of the Joint Committee that made an investigation of the Acts of the Board in the crisis of 1920 and 1921, and I trust that there may arise no occasion for adverse criticism of the Board in the present situation.

Very sincerely yours,

I. L. Lenroot

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December 10, 1925.

My dear Senator:

I want to thank you for your letter of November 23, requesting certain information concerning the relation of the Federal reserve system to recent credit developments and to assure you of the Board's appreciation of the spirit which has prompted your inquiry. It affords the Board an opportunity to discuss with you frankly some of the more important phases of the present banking and credit situation.

In the first place, the Board agrees with you that at present there are no indications that speculation, which has been active in the security market, has been reflected in the commodity markets or in trade and industry. As you say in your letter, there is always a possibility that speculative activity once under way may spread into commodity markets and may influence conditions in manufacturing and merchandizing activity. The recent course of commodity prices, however, and the close adjustment between current production and distribution of commodities give no evidence that existing business conditions are affected by inflationary or speculative influences.

You say that there appears to you to be a parallel with the situation of 1920 and it may be well to preface the replies to your questions with some comparison between the situation in 1920 and present business conditions.

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The inflation in stocks and commodities which had taken place by 1919-1920 appears to have been the result of world-wide conditions resulting from the great war. Industrial activity had reached the limit of plant capacity. There was active competition by manufacturers for raw materials and labor. There was a rapidly rising price level in all countries and there was a consequent widespread speculation in commodities based on the expectation of further price advances. Added to all this, there was in this country a breakdown in the transportation system which prevented the orderly marketing of commodities. At the present time, however, our conditions and world conditions are altogether different. In this country business is active, but the distribution of commodities is more prompt than it has ever been before. There is no excessive accumulation of stocks of raw materials or of merchandise and no competitive bidding up of prices. It seems, therefore, that the conditions which existed in the earlier period - conditions which favored an almost unprecedented inflation here and in other countries - do not now exist.

Your statement that several of the reserve banks have raised their discount rates "but New York, which is the real center of this speculation and inflation, has as yet taken no action" makes it desirable to comment briefly upon the New York stock market and its relation to the credit situation. While it is true that the stock market is located in New York and is financed through the New York money market, nevertheless we must not lose sight of the fact that it is national in its scope, that

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people in all parts of the country buy and sell securities in that market, and that it is financed by funds flowing into New York from all sections of the United States. In fact, only 40 per cent of the total funds is now supplied by New York City banks, and their loans to the street are now actually less than they were on the first of January. The entire increase in the Stock Exchange loan account in 1925, therefore, has been the result of funds from the interior or from outside the New York banks. This fact must be kept in mind in considering the replies to your various specific questions, for while stock exchange speculation is often associated in the public mind with Wall Street, the fact remains that business and credit conditions throughout the country have resulted in a flow of funds to the central money market.

Your specific questions are briefly discussed below in the order in which you presented them, and if the answers are not sufficiently full or clear the Board will be glad to supplement them.

1. You refer in your first question to the present cheap money induced by low discount rates. Present money rates are considerably higher than those prevailing in 1924. Open-market rates on commercial paper and on acceptances are now about 1 1/2 per cent above their level in the summer of 1924 and the rate on call money, which at that time was about 2 per cent, is now 5 per cent. In the latter part of 1924 the large volume of surplus funds available at low rates was doubtless a factor in the rise of security prices. But since the spring of 1925, while there has been an increasing volume of bank funds available, the level of interest rates

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has been rising, and the further advances which have occurred in security prices appear to have been a reflection of the speculative anticipation of large corporate earnings.

2. You ask whether there has been any indication that member banks have borrowed at the reserve banks for the purpose of lending at higher rates on the New York stock exchange. In general, it is not possible to determine to what use a member bank puts the credit obtained from the reserve bank. Member banks generally borrow to make up deficiencies in their reserve balances incurred as the net result of all of their operations, and it is seldom possible to trace the connection between borrowings of a member bank at the reserve bank and the specific transactions that gave rise to the necessity for borrowing. Isolated instances have come to the attention of the Board where member banks apparently have rediscounted with the reserve banks in order to make loans on the New York stock exchange, but when officers of the reserve banks have called the attention of the borrowing member banks to this situation, these borrowings were repaid. In general, a member bank borrows at the reserve bank to meet seasonal or other temporary requirements, and not in order to obtain profit by relending. Member bank borrowing for the purpose of making a profit by lending at a higher rate on the New York stock exchange is regarded with disfavor by the reserve banks and also generally by member banks.

3. Your third question is whether there has been any increase in the volume of discounts at the New York reserve bank since the rate was advanced from 3 to 3 1/2 per cent in February, 1925. Total discounts at

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the time the rate was increased were \$225,000,000. Following the increase in the discount rate member banks in the New York district repaid a large part of their borrowings at the reserve bank, so that three months later discounts at the New York reserve bank had declined to about \$60,000,000. During the last three months there has been the usual seasonal increase in discount, and the present level is approximately that of last February. But, as was stated above, the loans of New York City banks to stock exchange houses are now actually less than they were on January 1, 1925, indicating that stock exchange activity has not been the cause of the increased discounting at the New York bank. In addition to this increase in discounts, member banks and dealers in New York City have, as usual at this season, obtained additional funds through the sale of acceptances to the New York Reserve Bank, acting for itself and other reserve banks. Since the beginning of September the volume of reserve bank credit thus obtained has been about \$80,000,000.

The growth in the reserve system's holdings of acceptances during September and October is seasonal in character, since the autumn is the time of the year when a large increase occurs in the volume of bills drawn for the purpose of financing the domestic marketing and the export of agricultural products. A statement of acceptances purchased by the reserve banks, classified by commodities underlying the acceptances, which will be shown in detail in the Board's annual report for 1925, indicates that a large proportion of these acceptances are drawn to finance the marketing of cotton and grains.

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4. You ask in your letter whether the New York Federal Reserve Bank has reduced its holdings of government bonds and has made any attempt to reduce its discounts. Between December, 1924 and November, 1925 the system's holdings of government securities were reduced by about \$250,000,000, and the holdings of the New York Federal Reserve Bank by about \$110,000,000. This sale of government securities was one of the factors accounting for the growth in discounts during the early part of 1925, particularly at the Federal Reserve Bank of New York. The increase in the discount rate at the New York bank from 3 to 3 1/2 per cent in February had some effect, as has already been stated, in bringing about a reduction of discounts at that bank.

5, 6, 7. Your next three questions ask for information concerning loans and investments of member banks and the reserve banks, and concerning prevailing money rates on certain dates. These figures are presented in the accompanying statement marked "A".

8. The Board has no figures showing the total amount of credit used by the New York stock exchange, but the reported street loans of a certain number of banks in New York City both for themselves and their out-of-town correspondents are available. Governor Strong in his testimony before the Joint Commission of Agricultural Inquiry in 1921 presented these figures and they were published in Volume II of the hearings. These are confidential figures voluntarily supplied by reporting banks in New York City, and in view of their confidential character have not been published for later dates. These figures are brought down to date

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for your own information in the attached chart marked "B". The chart shows that the total street loan account has increased rapidly since the autumn of 1923 and that in 1925 there has been a slight decrease in the street loans made by New York banks for their own account, so that the entire increase was in loans for account of correspondents, which have almost doubled since the beginning of the year. Thus it is evident that it was money from banks outside of New York that financed this year's expansion in stock exchange activity. This outside money is about 60 per cent of the whole volume so employed. These facts were taken into consideration in establishing rates of discount at the various reserve banks.

In regard to the relationship between the New York Federal reserve bank and the Bank of England, there is no understanding between the two banks other than the arrangement entered into at the time of Great Britain's return to the gold standard, by which the Federal reserve banks agreed to place \$200,000,000 gold at the disposal of the Bank of England if desired. Up to the present time no part of this gold credit has been used. While it is the intention to exchange information freely and to avoid any unnecessary action which would be detrimental to the maintenance of a free gold market, the New York Reserve Bank and the Bank of England are both absolutely free and uncommitted as to any action whatever relative to rates or other credit operations required to deal with domestic needs. There is no understanding, formal or informal, beyond that expressed in the credit itself.

I am sure you realize that the action of the Federal reserve banks in

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granting the request of the Bank of England for this gold credit and thus facilitating the return of Great Britain to a gold standard, was prompted largely by a conviction that in no other way could they contribute so effectively towards stabilizing foreign markets for our produce and the means of settlement therefor. The fact is that the law placing an embargo on the export of gold from Great Britain expires December 31, 1925. Sometime during 1925 the British Government had to choose whether it would resume gold payments on or before that date or whether before that date it would go before Parliament and ask for a further extension of the gold embargo. If it had seemed necessary to make the latter decision the general return to the gold standard not only in England but in Europe generally would have been delayed, perhaps indefinitely, and the business of our exporters would have been subjected for a further indefinite period to those uncertainties and exchange fluctuations which had hampered it in the preceding years. Undoubtedly the credit of 100 million dollars arranged for the British Government with Messrs. J. P. Morgan & Company, and the agreement of the Federal reserve banks to place 200 million dollars gold at the disposal of the Bank of England were essential elements in justifying the British government in its decision to return to the gold standard. It should be clearly understood, however, that the Federal reserve banks have undertaken no "exchange guarantee", as suggested in your letter. Any protection of the exchange will be undertaken by the Bank of England and not by the Federal reserve banks. They have merely agreed to place gold at the disposal of the Bank, if desired. Any amounts used are to be repaid in gold at the end of two years, under a specific

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undertaking by Parliament and the British Treasury that no obstacles will be placed in the way of gold shipments by the Bank of England should they be necessary to effect the repayment.

While these replies cover the specific inquiries in your letter, the Board regards it as essential to an understanding of the present credit situation to keep in mind the influence which the continued inflow of gold during recent years has had upon the growth in member bank credit. Since the autumn of 1920 the addition to the gold stock of the United States has been \$1,500,000,000, and this inflow of gold, together with the decrease in domestic currency requirements, has reduced the volume of reserve bank credit outstanding from its peak of \$3,400,000,000 in November, 1920, to its present level of \$1,300,000,000, a reduction for the period of \$2,100,000,000. The Gold received from abroad has also furnished a basis for a growth of member bank loans and investments of \$4,300,000,000 above the level of 1920. Broadly speaking, it was this imported gold that liquidated the Federal reserve banks and brought about the growth in member bank credit. During 1925 the return of many European countries to the gold standard has changed the international situation in respect to gold. Largely as the result of exports of gold to countries that were reestablishing a gold basis for their currencies, this country's gold stock has been reduced during the past year by about \$150,000,000. This outward movement of gold during 1925 and the increased reserve requirements of member banks against their larger deposits have been the principal factors in the increased demand for reserve bank credit during the past year.

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In the general business situation in this country during the past year there has been a decided improvement, but in respect to industrial and agricultural conditions. Industrial activity has greatly increased, agriculture has made definite progress toward a more complete recovery, and the prices of agricultural commodities are now at about the same relative level as prices of other commodities. An important factor both in the industrial and the agricultural activity has been the extension by investors in this country of loans to foreign countries in a volume approximately \$1,000,000,000 both in 1924 and 1925. Not only have these foreign loans helped maintain a European market for American products, but they have been an important factor in the economic reconstruction of Europe. The larger part of the funds arising from these loans was expended in the purchase of products of American agriculture and industry, but a portion was used directly for the purpose of stabilizing the value of foreign currencies in relation to gold. Thus the lower level of interest rates in this country compared to the high rates abroad has been a factor not only in stimulating foreign demand for American goods but also in the progress of monetary reconstruction in Europe. Lower money rates have also enabled American railroads, public utilities, and industrial concerns to fund a considerable part of their borrowings and to convert them into long-term obligations, and this has contributed to the soundness of the business situation and has facilitated the putting of the industrial, public utility, and railroad equipment of the country into better condition than at any previous time. It has been the capacity to produce and transport goods promptly and efficiently that has facilitated distribution of

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commodities without the accumulation of excessive inventories and has been an important factor in keeping prices at a relatively stable level. In this respect the present situation is in marked contrast to that of 1919-1920.

I trust that this letter has covered in general the subjects of your inquiry. I am appending a list of the principal charts which the Board consults as a means of keeping in touch with current economic developments. These charts are available in my office, and if you wish to examine them I should take pleasure in showing them to you. And, generally, if there is any further information that the Board could supply, I assure you that it would be very happy to do so.

Yours very truly,

G o v e r n o r .

Hon. Irvine L. Lenroot,  
United States Senate.

EXHIBIT A

Statistical Data.

1. Figures of loans and investments, by classes, for about 725 weekly reporting member banks in 101 leading cities for the dates requested in your letter are given below:

Loans and Investments of Weekly Reporting Member Banks (In millions of dollars)

Date	:Total :loans and :investments:	L o a n s				: Invest- : ments
		: Total	: On	: All	: other	
Weekly reporting member banks in leading cities:						
July 2, 1924. . . . .	17,056	12,150	4,329	7,821	4,906	
Jan. 7, 1925. . . . .	18,661	13,106	4,884	8,222	5,555	
July 1, 1925. . . . .	18,892	13,375	5,346	8,029	5,517	
Nov. 25, 1925 . . . . .	19,364	13,959	5,581	8,378	5,405	

2. The following table shows loans and investments for quarterly dates beginning June 30, 1924, for all banks in the country and for member banks. Classification of loans is not available for these banks.

Loans and Investments of All Banks and of Member Banks (In millions of dollars)

Date	:Total loans and invest- : ments		L o a n s		: Investments	
	: All banks	: member banks	: All banks	: member banks	: All banks	: member banks
June 30, 1924	45,402	27,262	31,000	19,264	14,402	7,998
Oct. 10, "		28,451		19,820		8,631
Dec. 31, "		29,027		20,182		8,845
April 6, 1925		29,285		20,390		8,895
June 30, "	49,095	29,702	33,647	20,814	15,448	8,888
Sept. 28, "		30,369		21,450		8,919

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Exhibit A.

3. Below are shown the reserve banks' holdings of different classes of bills and securities on specified dates:

Holdings of Bills and Securities by Federal Reserve Banks  
(In millions of dollars)

	: Bills discounted			: Purchase in the open		: Total bills
	: Secured	: Other	: Total	: market	: U. S. se-	: and secur-
	: by U. S.	: bills	: Total	: Accept-	: U. S. se-	: ities*
	: Gov. obli-	: discount-	: ;Accept-	: U. S. se-	: curities	:
	: gations	: ed	: ances	: curities	:	:
July 2, 1924	142	227	369	53	435	859
Jan. 7, 1925	147	118	265	341	496	1,110
July 1, 1925	269	243	512	249	394	1,127
Nov. 25, 1925	346	279	625	359	332	1,326

\*Includes foreign loans on gold and small amounts of securities other than U. S. Securities.

4. Money Rates in the New York Market

Average for week ending	: Prime Commercial Paper	: Prime Bankers' Acceptances
	: (4-6 months)	: (90 days)
July 5, 1924	$3\frac{1}{2}$	2
January 10, 1925	$3\frac{1}{2}$	3
July 4, 1925	$3\frac{3}{4}$ - 4	$3\frac{1}{2}$
November 28, 1925	$4\frac{1}{4}$ - $4\frac{1}{2}$	$3\frac{1}{2}$

5. In the following table are shown the rates prevailing on "customers" prime commercial paper", (4-6 months) as reported to the Board by banks in six leading cities.

Money Rates in Certain Centers

	: Boston	: New York	: Phila-	: Cleve-	: Chicago	: San
	: delphia	: land	: Chicago	: San	: Francisco	:
July, 1924	$4\frac{1}{2}$ - $4\frac{3}{4}$	4 - 5	4 - 5	6	$4\frac{1}{2}$ - $5\frac{1}{2}$	5
January, 1925	$4\frac{1}{4}$	4	4 - $4\frac{1}{2}$	5 - 6	$4\frac{1}{4}$ - 5	5 - $5\frac{1}{2}$
July, 1925	4 - 5	4 - 5	4 - $4\frac{1}{2}$	$5\frac{1}{2}$ - 6	$4\frac{1}{2}$ - 5	5 - 6
November, 1925	$4\frac{1}{4}$ - 5	$4\frac{1}{4}$ - 5	5	$5\frac{1}{2}$ - 6	$4\frac{1}{2}$ - $5\frac{1}{2}$	$4\frac{1}{2}$ - $5\frac{1}{2}$

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Exhibit A.

6. In the table below are shown the prevailing discount rates at the different Federal Reserve Banks on the dates specified.

Discount Rates at Federal Reserve Banks

Federal reserve bank of	Prevailing discount rates			
	July 1, 1924	Jan. 1, 1925	July 1, 1925	Nov. 1925
Boston	$3\frac{1}{2}$	$3\frac{1}{2}$	$3\frac{1}{2}$	4
New York	$3\frac{1}{2}$	3	$3\frac{1}{2}$	$3\frac{1}{2}$
Philadelphia	$3\frac{1}{2}$	$3\frac{1}{2}$	$3\frac{1}{2}$	4
Cleveland	4	$3\frac{1}{2}$	$3\frac{1}{2}$	4
Richmond	4	4	4	4
Atlanta	4	4	4	4
Chicago	4	4	4	4
St. Louis	4	4	4	4
Minneapolis	$4\frac{1}{2}$	4	4	4
Kansas City	4	4	4	4
Dallas	4	4	4	4
San Francisco	4	$3\frac{1}{2}$	$3\frac{1}{2}$	4

7. The average rate at which acceptances were purchased by the Federal reserve banks on the dates requested are as follows: July, 1924, 2.35 per cent; January, 1925, 3.01 per cent; July, 1925, 3.24 per cent; October, 1925, 3.43 per cent. The average rate for November is not yet available.

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EXHIBIT B.

The chart is that referred to in the answer to question 8 of your letter. The chart shows figures for the last weekly report date of each month and the latest date is November 25, 1925. In recent weeks there has been some decline in street loans.

EXHIBIT C.

Principal Charts Currently Used by the Federal Reserve Board

(These charts are on a weekly or monthly basis, cover a series of years, and bring the information down to the latest available date.)

Banking, Credit, and Money Rates:

Volume of Reserve Bank Credit  
Federal Reserve Bank Liabilities and Reserves  
Condition of Weekly Reporting Member Banks  
Condition of Weekly Reporting Member Banks in New York City  
Condition of All Member Banks  
Bankers' Balances at Banks in Federal Reserve Bank Cities  
Discounts of Member Banks at Reserve Banks, Classified by Groups of Borrowing Banks.  
Gold Imports and Exports  
Reserve Bank Credit, Gold Stock, and Money in Circulation  
Money Rates in the New York Market

Production, Employment, Trade, and Prices:

Production in Basic Industries  
Factory Employment  
Factory Payroll  
Wholesale Trade  
Retail Trade and Stocks  
Wholesale Prices in the United States  
Security Prices

Principal Charts Currently Used by the Federal Reserve Board

(These charts are on a weekly or monthly basis, cover a series of years, and bring the information down to the latest available date.)

Banking, Credit, and Money Rates:

Volume of Reserve Bank Credit  
Federal Reserve Bank Liabilities and Reserves  
Condition of Weekly Reporting Member Banks  
Condition of Weekly Reporting Member Banks in New York City  
Condition of All Member Banks  
Banker's Balances at Banks in Federal Reserve Bank Cities  
Discounts of Member Banks at Reserve Banks, Classified by Groups  
of Borrowing Banks  
Gold Imports and Exports  
Reserve Bank Credit, Gold Stock, and Money in Circulation  
Money Rates in the New York Market

Production, Employment, Trade, and Prices:

Production in Basic Industries  
Factory Employment  
Factory Payroll  
Wholesale Trade  
Retail Trade and Stocks  
Wholesale Prices in the United States  
Security Prices

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UNITED STATES SENATE

December 14, 1925.

Honorable D. R. Crissinger,  
President, Federal Reserve Board,  
Treasury Department,  
Washington, D. C.

My dear Governor:-

I have been away from the City, and on my return find yours of the tenth instant.

I very greatly appreciate your writing me so fully in reply to my letter of November 23rd. I am giving the information that you send me very careful study, and I think it fully covers my inquiry.

Should I desire any supplemental information, I shall write you.

Concerning one phase of the situation, I may desire to have a personal conference. I am very glad to say that since writing you my fears have been considerably allayed by the course of stock market transactions, and I hope the tendency which existed a few weeks ago will not reappear.

Very sincerely yours,

(s) I. L. Lenroot.

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UNITED STATES SENATE

December 23, 1925.

Honorable D. R. Crissinger,  
Governor, Federal Reserve Board,  
Treasury Department,  
Washington, D. C.

My dear Governor Crissinger:-

I have now had more time to consider the Board's letter of the 11th instant, and especially the tables and charts annexed, and I wish to avail myself of the courteous offer to supply further information to me. The questions we are discussing are obviously of vast importance to the country as a whole, and I desire to be in position for constructive help in the situation as it may arise.

The Board's letter clears up many matters of importance. I am, however, much disturbed over the continued expansion of speculation on the New York Stock Exchange which again shows strong recurrence. It appears to me that the speculative purchase of large amounts of securities upon credit can not be otherwise than dangerous because it absorbs the credit fund of the country; because of the tendency of speculative fevers to extend into the commodities and also because it must result in a relapse which will carry losses into every part of the country.

Your assurance that this speculative activity is not due to New York activities but originates over the whole country and your evidence that this gigantic expansion of credit upon which it has been carried, itself originates from outside of New York, lends gravity to the situation for its inevitable collapse would be ever more dangerous to commerce and industry by virtue of its widespread character. There can be no doubt from your statement that this large movement in New York Stock Market has not been one of realignment of values under new investment but one of sheer speculation because your charts show that "street" loans have increased nearly one billion dollars since this movement began and have now reached the gigantic total of nearly two billion seven hundred million, or about 40% more than any amount hitherto known in our credit history. Nor is it likely that this represents anything like all the credit being used in this outbreak of speculation for obviously a considerable amount will be carried in credits outside of "street" loans, as I understand that both individuals and corporations engage in "street" loans directly and that much credit is secured for speculation outside these sources even.

I would be glad to know if the Board considers that this absorption of credit may have lifted the rates at which money is bringing in commerce and agriculture? Has it been the true economic origin of the increase in interior reserve rates?

I believe we must all be concerned over this question and that we should make certain that the creation of the Federal Reserve System is not a contributory to this expansion either directly or indirectly, I notice that Mr. Roberts, of the National City Bank, in a recent article considers that the working of the Federal Reserve System has been a contributory factor. I also notice from the figures you furnish me that during 1925 and still more going back to the middle of 1924 that there has been a very considerable expansion in the bill and security holdings of the Federal Reserve System. I have been struck by the fact that there has been a marked increase in the last six months, paralleling the last outburst of speculation in stocks. This has lead me to wonder whether there is any connection between the credit released by the Federal Reserve System and this great increase of credit absorbed in street loans as indicated by your statement because advances from the Federal Reserve are capable of great pyramiding. The figures given in your letter for your reporting member banks show large increases in loans and investments in these banks over those of any preceding six months in recent years. The figures given, however, do not show how much of this increase in credit is used for commerce, industry and agricultural purposes, such as are legitimate for employment of the Federal Reserve credit.

I would be obliged, therefore, if you would help me to get a better line upon the development of the last year and a half and particularly the last six months by giving me an analysis showing how much of the loans of your reporting member banks are for commercial use.

Frankly, I am astonished at the increase in street loans. It seems to me that your information as to the volume of these loans is of the utmost importance to the country and if its amount and its increases were known to the country it would in itself strongly tend to bring this orgy of speculation to an end. I note that the board considers this information to be confidential. I would like to have the Board's opinion as to whether it would not be advisable to secure this information officially and to publish it regularly. The Federal Reserve Act, Section 11, makes this possible. It seems to me that not only would such publication act as a strong deterrent to such expansion but its publication would relieve the Board of a grave responsibility of holding information of so vast importance not accessible to the country as a whole. I should like to have your opinion upon this and as to whether we could provide additional authority to secure this information regularly from all banks who are not members as well.

Very sincerely yours,

(a) I. L. Lenroot.

# FEDERAL RESERVE BULLETIN

VOL. 12

JANUARY, 1926

No. 1

## REVIEW OF THE MONTH

Banking developments in 1925 reflect a large increase in the volume of credit extended by member banks to finance the year's unusually active business and the increased volume of transactions in the security market. The volume of member bank credit in use during 1925 was larger than in any previous year, and the volume of reserve bank credit outstanding was considerably above the level of 1924 and approximately at the average level of the two preceding years. With the increased demand for bank credit from industry and finance the member banks maintained their own investments in securities at the high level reached the year before, when abundance of funds had caused these banks greatly to increase their holdings of investments. At the reserve banks the increase in the volume of credit outstanding in December, 1925, compared with the closing month of the year before was due to the withdrawal of gold for export, amounting to about \$150,000,000 during the year, and to a comparatively small increase in the reserve balances of member banks from the high level reached at the end of 1924. Domestic currency demand increased somewhat during the year, owing to the active condition of business, but this increased demand was met through the use of American currency returned from abroad in sufficient volume to meet the increase in domestic requirements. In general, the year may be characterized from the point of view of banking developments as one during which member banks financed a larger volume of domestic business out of their own resources and met a demand for gold for export by obtaining additional funds from the reserve banks.

Bank credit in 1925.

In 1925, for the first time in five years, the annual average of reserve bank credit in use was larger than for the preceding year. The average volume of bills and securities during 1925 was \$1,140,000,000, compared with an average of \$950,000,000 in 1924. This higher level of reserve bank credit was due to the maintenance by member banks of a higher average of reserve balances, in keeping with the larger volume of their own deposit liabilities, and to the change in the direction of gold movements, which during the preceding four years had been an important factor in reducing the volume of reserve bank credit. Yearly averages of reserve bank holdings of bills and securities, which measure the total of reserve bank credit in use, are shown below:

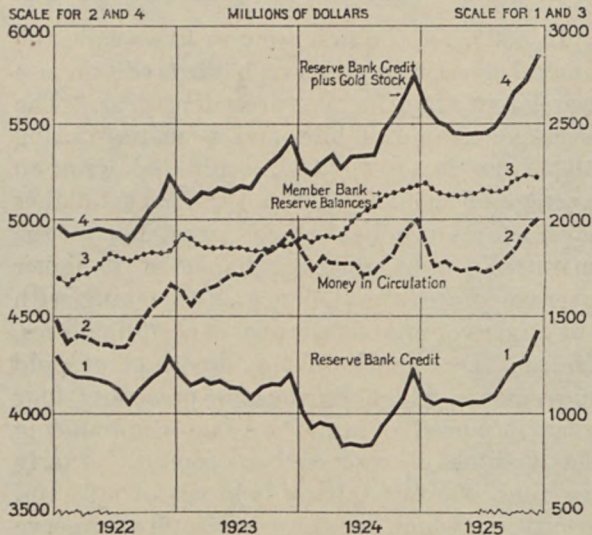
### RESERVE BANK CREDIT OUTSTANDING

[Yearly averages in millions of dollars]

Year	Bills and securities held by reserve banks	Change from previous year
1920.....	3,243	-----
1921.....	2,160	-1,083
1922.....	1,187	-973
1923.....	1,151	-36
1924.....	950	-201
1925.....	1,140	+190

While the increase in the average level of reserve bank credit during 1925, after a continuous decline for four years, was caused by the larger volume of reserve balances and by gold withdrawals, the changes from month to month during the year reflected chiefly changes in the domestic demand for currency. The chart shows for the years 1922 to 1925 month-to-month changes in the volume of reserve bank credit, in the volume of reserve bank credit combined with the

country's stock of gold, in the volume of money in circulation, and in reserve balances held by member banks with the reserve banks. The figures on which the chart is based appear on page 30 of this issue.



The reserve bank figures are daily averages and the gold stock and money in circulation figures are averages of figures for the first of two consecutive months. The curves representing reserve bank credit and member bank reserve balances are on a scale running from \$500,000,000 to \$3,000,000,000, and the curves of money in circulation and of reserve bank credit plus gold stock on a scale running from \$3,500,000,000 to \$6,000,000,000.

In the chart the curve representing reserve bank credit shows changes from month to month in the average volume of bills and securities held by the reserve banks. To this amount is added for every month the total of gold stock in the country, and the combined total is shown in the curve at the top of the chart. Fluctuations in this curve, therefore, represent monthly changes in the funds available to member banks at the reserve banks resulting from changes in the stock of gold and from increases or decreases in the volume of reserve bank credit. The reason for combining the stock of gold and the volume of reserve bank credit into a single curve is that gold received from abroad is immediately deposited with the reserve banks and is first reflected in an addition to the member bank reserve accounts, and that gold for export is obtained by member banks from the reserve banks

and is charged directly to the member banks' balances. During the years of net gold imports the gold added to the reserve balances of member banks was either used to reduce indebtedness at the reserve banks or to meet a demand for currency, or remained in the balances and so increased the lending power of the member banks in the same way as borrowing. To which of these various possible uses the reserve bank funds arising from the imported gold was put by member banks has depended upon credit and currency conditions prevailing at the time. Changes in the two factors that determine the domestic demand for reserve bank credit are shown in the curves representing money in circulation and reserve balances of member banks. When member banks are called upon to meet an increased demand for currency they are obliged to use a corresponding amount of the funds held to their credit at the reserve banks. When, however, funds added to member banks' balances through the deposit of imported gold are not used in meeting a currency demand or in repayment of borrowings at the reserve banks, they remain on deposit as reserve balances and form the basis of additional lending power of the member banks.

The chart shows that in 1925 month-to-month fluctuations in reserve bank credit were largely in response to changes in the demand for currency, as changes in reserve balances were relatively small, and that, while the volume of reserve bank credit increased considerably during the year, the total reserve bank funds available to member banks, as represented by the curve for reserve bank credit plus gold, changed but little. This is in contrast to the other years shown on the chart, in each of which gold imports were more than sufficient to offset the decrease in reserve bank credit, and the total of reserve bank funds, as shown in the upper curve, increased. In 1922 this increase was used both in meeting a growing demand for currency and in supplying additional reserves to member banks; in 1923 the increase in currency demand arising from an increased volume of domestic trade and employment,

together with a demand for American currency from abroad, absorbed the entire growth in reserve bank funds; and in 1924, with currency demand showing only seasonal variations and only a slight increase for the year, and with the level of reserve bank credit about the same at the end of the year as at the beginning, the increase in reserve bank funds arising from gold imports was added in large part to member bank reserve balances, and constituted the basis of a rapid growth in member bank credit. In 1925, with little change in the demand for currency and with gold exports absorbing the growth in reserve bank credit, there was little change for the year in the volume of member bank reserve balances. The maintenance of these balances at the high level reached the year before, however, required the continuous use of a larger amount of reserve bank funds.

With only a slight increase during 1925 in member bank balances at the reserve banks, the total of member bank credit increased considerably. Between October 10, 1924, and September 28, 1925, the latest date for which a condition statement for all member banks is available, loans and investments of these banks increased by about \$2,000,000,000, or nearly 7 per cent, and monthly figures for deposits indicate a further growth in bank credit during the last quarter of the year. This growth during 1925 in the volume of credit extended by member banks, without corresponding increase in their reserve balances with the reserve banks, is explained chiefly by changes in the character of the deposits and their distribution among banks subject to different legal reserve requirements. Between October 10, 1924, and September 28, 1925, as is shown in the table below, time deposits of member banks, against which only a 3 per cent reserve is required, increased by \$870,000,000, while net demand deposits, which carry a much larger reserve requirement, increased by only one-half this amount. Furthermore, net demand deposits in central reserve cities, where the required reserves are

13 per cent, declined by \$226,000,000, and those in banks outside of reserve cities, where only a 7 per cent reserve is required, increased by \$435,000,000. The decrease in net demand deposits at the financial centers reflected largely the decline in balances carried by city banks for their country correspondents, a decline which was due chiefly to the employment by these country banks of their idle balances in making loans on securities. As a consequence of these changes the reserve balances of member banks in central reserve cities declined by \$35,000,000 during the period, while those for banks in reserve cities increased by \$17,000,000, and those for country banks by \$43,000,000. The net result was an increase of \$26,000,000 in the total of member bank reserves. As has been pointed out in earlier reviews, the ratio of reserves of member banks to deposits remains continuously at or near 10 per cent, when the calculation is based on the net amount of deposits on which reserves are computed, an amount in which time deposits are reduced to a net demand deposit basis. When reserve balances are related to the combined total of net demand and time deposits, however, the two classes of deposits against which reserves are required, a decline in the ratio from 7.8 per cent to 7.5 per cent is shown for the past year. While 7.5 per cent is the average ratio of reserves to deposits for all member banks, the ratio is 11.3 per cent for banks in central reserve cities, 7.2 per cent for banks in other reserve cities, and 5.3 per cent for country banks. This variation in reserve ratios for the different classes of banks indicates that in New York and Chicago, the two central reserve cities, owing both to larger reserve requirements against demand deposits and the larger proportion of this class of deposits, deposits of member banks are only about nine times as large as reserves, while in country banks, with smaller reserve requirements and a larger proportion of time deposits, total net demand and time deposits are nearly twenty times as large as reserve balances.

**Basis of growth  
of member bank  
credit.**

DEPOSITS AND RESERVES OF MEMBER BANKS			
[In millions of dollars]			
	Oct. 10, 1924	Sept. 28, 1925	Change
Net demand deposits:			
Total.....	17,780	18,233	+453
In central reserve city banks.....	6,299	6,073	-226
In reserve city banks.....	5,948	6,190	+244
In country banks.....	5,535	5,970	+435
Time deposits.....	9,597	10,467	+870
Total net demand and time de-			
posits.....	27,377	28,700	+1,323
Reserve balances.....	2,122	2,147	+26
Ratio of reserve balances to net demand			
plus time deposits:			
For all member banks.....	7.8	7.5	-----
For banks in central reserve cities.....	11.5	11.3	-----
For banks in reserve cities.....	7.6	7.2	-----
For country banks.....	5.4	5.3	-----

Growth of time deposits has been a continuous factor in the increase of deposit liabilities of member banks since the organization of the Federal reserve system, and the fact that they have increased more rapidly than demand deposits has been an influence toward decreasing the average ratio of reserves that member banks have been required to carry against their combined deposits. The volume of demand deposits has fluctuated with changes in business conditions, and after a rapid decline in 1921 and the early part of 1922 and a subsequent recovery, their level in 1925 was considerably higher than at the peak five years earlier. Time deposits, on the other hand, increased throughout the period of recession in 1921-22 and the later period of increased business activity, and their level in September, 1925, was \$4,300,000,000 above that of November, 1920. While time deposits have increased at banks in all classes of cities and while their rate of growth in recent years has been even greater at banks in financial centers than at country banks, they constitute a much larger proportion of total deposits in the smaller cities. In September of the year just closed the proportion of time deposits to total deposits was 13 per cent in central reserve city banks, 33 per cent in reserve city banks, and 46 per cent in country banks.

The large volume of time deposits at country banks has been a source of additional lending power for these banks. Not being subject to payment on demand, time deposits are usually considered by the banks as available for use in the purchase of long-term investments. The large volume of time deposits at the member banks, and particularly at member banks in smaller towns and in country districts, indicates that these banks are not only commercial banks engaged in making loans to finance the current operations of trade and industry and in carrying the proceeds of these loans as deposits payable on demand, but are also to a considerable extent serving their customers as savings banks and investment institutions receiving time deposits and investing them in Government and other securities. The relation between time deposits and investments for each of the different classes of banks is brought out in the table:

#### TIME DEPOSITS AND INVESTMENTS OF MEMBER BANKS, SEPTEMBER 28, 1925

[In millions of dollars]

Class of bank	Time deposits	Investments
All member banks.....	10,467	8,919
Member banks in—		
Central reserve cities.....	1,115	1,930
Other reserve cities.....	3,759	2,890
Country banks.....	5,593	4,099

For all member banks combined, time deposits on September 28, 1925, considerably exceeded total investments, indicating that a certain proportion of funds obtained through time deposits has been used by member banks in increasing their loan account. This has been particularly true for country banks, whose time deposits in 1925 exceeded their investments by about \$1,500,000,000, while in central reserve cities the banks' security holdings were larger than their time deposits.

The proportion of the member banks' funds employed in different classes of loans and

investments also differs for the member bank different classes of banks. The credit.

composition of member bank earning assets, by classes of banks, at the close of the last fiscal year is shown below:

LOANS AND INVESTMENTS OF MEMBER BANKS ON JUNE 30, 1925

[In millions of dollars]

	All member banks	Member banks in—		Country banks
		Central reserve cities	Other reserve cities	
Loans on securities.....	6,718	2,857	2,275	1,586
All other loans.....	14,081	2,651	5,191	6,239
Total loans.....	20,799	5,508	7,466	7,825
Investments.....	8,888	2,014	2,866	4,008
Total loans and investments.....	29,687	7,522	10,332	11,833
Percentage distribution:				
Loans on securities.....	22.6	38.0	22.1	13.4
All other loans.....	47.4	35.2	50.2	52.7
Total loans.....	70.1	73.2	72.3	66.1
Investments.....	29.9	26.8	27.7	33.9
Total loans and investments.....	100.0	100.0	100.0	100.0

In central reserve and reserve city banks loans constituted considerably more than 70 per cent of total earning assets of member banks, and in country banks they were two-thirds of the total. At member banks in the financial centers, where the surplus funds of the country are largely employed, loans on securities are larger than all other loans, while at country banks only 13 per cent of earning assets are employed in collateral loans. Differences in banking practice may account in part for the difference in the composition of earning assets of banks in the financial centers and outside, but these differences also reflect the fact that banks throughout the country, after using a large part of their funds to meet the financial requirements of trade and industry in their own localities, place the funds not required locally on deposit with city correspondents. Funds thus placed at the disposal of city banks are subject to with-

drawal on demand whenever increased business activity in the interior of the country causes a growth in local financial requirements. Under these circumstances city banks employ the funds received from the interior chiefly in making demand or short-term loans on securities. During 1924 and 1925, with loanable funds throughout the country in excess of local credit requirements, there has been a rapid growth of collateral loans by member banks.

This review indicates that the most important banking developments during the year 1925 have been a continuous growth of member bank loans on securities, and a considerable increase in the second half of the year in loans for agricultural and commercial purposes. Furthermore, owing to changes in the character and geographic distribution of the deposits of member banks, they were able to support the increase in the total of their deposits without a corresponding increase in their reserve balances. At the reserve banks the increase in the volume of credit outstanding reflected the influence of gold exports, following upon four years of a continuous inflow of gold from abroad.

TREASURY FINANCE

December financing.

On December 7 the Treasury announced an offering at par through the Federal reserve banks of one-year 3¾ per cent Treasury certificates, dated December 15, 1925, and maturing December 15, 1926. The offering was for \$450,000,000 or thereabouts, and it was announced that the Treasury would accept in payment for the new certificates outstanding Treasury certificates and 4¾ per cent Treasury notes maturing December 15, 1925. Preferred allotment would be given to subscriptions for which payments were tendered in these certificates and notes, of which the amount outstanding was approximately \$480,000,000. The offering was intended with balances on hand and December tax receipts to cover the cash requirements of the Treasury until March, when further financing will be

necessary. The same exemptions from taxation were provided as have been provided for other issues under the act of September 24, 1917, and the new certificates will be accepted at par in payment of income and profits taxes payable at maturity of the certificates. Subscriptions for the new issue were closed at close of business on December 9 and amounted to \$875,780,900. Subscriptions were allotted in the amount of \$452,749,000, of which \$167,210,700 represented allotments on subscriptions for which maturing Treasury notes and certificates were tendered in payment. All such subscriptions were allotted in full, allotments on other subscriptions being made on a graduated scale—on subscriptions in amounts not exceeding \$100,000, 50 per cent but not less than \$500 on any one subscription, and on subscriptions in larger amounts, 30 per cent but not less than \$50,000 on any one subscription. Subscriptions and allotments in the several Federal reserve districts were as shown in the table following:

Federal reserve district	Subscriptions	Allotments
Total.....	\$875,780,900	\$452,749,000
Boston.....	66,930,500	30,055,000
New York.....	320,927,500	171,995,000
Philadelphia.....	81,333,000	44,997,000
Cleveland.....	66,192,500	29,165,000
Richmond.....	28,641,000	12,830,500
Atlanta.....	35,236,500	17,744,500
Chicago.....	87,226,500	44,404,000
St. Louis.....	29,515,500	16,988,500
Minneapolis.....	22,099,500	14,219,500
Kansas City.....	17,292,400	12,040,000
Dallas.....	33,015,500	17,622,500
San Francisco.....	87,370,500	40,687,500

In his annual report for the fiscal year 1925, the Secretary of the Treasury notes that "the average rate of interest borne by certificates of indebtedness offered in the fiscal year 1925 was only 2.9 per cent," the average rates for earlier fiscal years being: For 1921, 5.7 per cent; for 1922, 4.5 per cent; for 1923, 4.1 per cent; and for 1924, 3.9 per cent. In June the Treasury issued at par one-year certificates bearing interest at 3 per cent, and in September, nine-months certificates at  $3\frac{1}{4}$  per cent.

#### Payments received from foreign governments.

On December 15, payments in the amounts given below were received from foreign countries on account of their funded indebtedness to the United States:

Country	Amount of payment		
	Total	Principal	Interest
Total.....	\$95,253,371.85	\$26,057,018.00	\$69,196,353.85
Great Britain.....	92,310,000.00	24,000,000.00	68,310,000.00
Belgium.....	677,432.22	-----	677,432.22
Czechoslovakia.....	1,500,000.00	1,500,000.00	-----
Finland.....	180,650.00	47,000.00	133,650.00
Hungary.....	39,611.25	10,018.00	29,593.25
Lithuania.....	45,678.38	-----	45,678.38
Poland.....	500,000.00	500,000.00	-----

#### NOTES

##### Agreement with Belgian National Bank.

On December 10 the Federal Reserve Bank of New York, with the approval of the Federal Reserve Board, made an agreement with the Belgian National Bank to stand ready to purchase Belgian prime commercial bills, when such purchases are desired. This agreement with the Belgian central bank is in pursuance of the system's policy of cooperating with foreign countries in the reestablishment of the gold standard. The statement issued by the New York Federal Reserve Bank follows:

As an aid to the plans which are in progress for improving the monetary position of Belgium, the Federal Reserve Bank of New York, in association with other Federal reserve banks, has indicated its readiness to cooperate with the Belgian bank of issue, the Banque Nationale de Belgique, if desired, by purchasing prime commercial bills. It is understood that offers of cooperation have also been made by the Bank of England and other European banks of issue.

##### Annual reports of Secretary of the Treasury and Comptroller of the Currency.

The text of the annual reports of the Secretary of the Treasury and of the Comptroller of the Currency for the fiscal year ending June 30, 1925, were issued during December.

##### First annual report of the Agent General for Reparation Payments.

The first annual report of the agent general for reparation payments, issued early in December, reviews the progress of the reparations program and of Germany's economic recovery under the Dawes plan. The report states: "The plan realized during the year its first essential preliminary objects; that is to say, a balanced budget and a stable currency. \* \* \* Side by side with the achievement of these two objects, the output and distribution of goods, according to available figures, have considerably exceeded the experiences of the immediate-

C O P Y

January 12, 1926.

My dear Senator:

I wish to acknowledge receipt of your letter of December 23, 1925, and to assure you that the Board is glad to furnish you with the additional information you desire. I personally should appreciate it if you would come to my office where we could talk over the important problems with which the reserve system has to deal and reach a fuller understanding than is possible by correspondence.

To the extent that an unhealthy speculation is responsible for an advance in security prices, it is likely to carry these prices to a level that cannot be maintained and to be followed by a recession that affects general business confidences. The effect on business of a downward turn in the security market is, however, largely psychological and indirect. Business men are likely to interpret it as a forerunner of slackened business activity and may, therefore, either curtail their operations or at least pursue a more cautious policy in making forward commitments. The actual losses resulting from the decline in security prices will fall upon investors and particularly upon speculators, who having bought for a rise may be compelled to sell at a sacrifice, rather than upon those engaged in productive enterprises. The Board in its previous letter agreed with you that there is always a possibility that speculation in the security market will spread into commodity markets, but indicated that there was then no evidence of speculative tendencies in these markets. Since then the movement of commodity prices has been generally downward.

In order to illustrate the trend of commodity prices in relation to the physical volume of activity in recent years, two charts are attached, Chart A showing the volume of building contracts awarded and the course of prices of building materials, and Chart B the movement of prices of the principal classes of building materials and of all commodities. The first chart shows, that in the face of a very rapid growth in building construction in recent years, prices of building materials have not only failed to advance, but have slightly declined. The second chart shows the downward movement of prices in the different classes of building materials since 1923 and the relative stability, with a recent decline, in the general price level. An additional set of three charts (C, D, and E) is also enclosed, showing for the principal industries the physical volume of production and the price of the products over a series of years. You will note that in practically all of the industries there has been a decided increase in production in recent years, while prices have either remained stationary or have declined. The only marked exception is rubber, the price of which has advanced very rapidly during the past year for reasons in no way connected

Hon. I. L. Lenroot, - #2

with the domestic business or credit situation.

Growth in the volume of member bank loans on securities in the past eighteen months has been at an extremely rapid rate and the Board shares with you the feeling that such a rapid growth of security loans is not an altogether desirable development in the banking situation. There has been no evidence, however, of any scarcity of credit for productive enterprises resulting from the growth of collateral loans on stocks and bonds. On the contrary, it is partly in consequence of the relative absence of growth in the local demand for bank credit to finance current operations that the banks utilized their surplus funds, particularly in the latter part of 1924, by making loans on securities. Since the middle of 1925 there has been a considerable growth in loans for commercial purposes, as well as a further increase in loans on securities at member banks in leading cities. A table showing changes in the different classes of loans and investments of reporting member banks for the last report date in each month during 1924 and 1925 is appended. Loans under the caption "All other loans" are for the most part loans for agricultural and commercial purposes. There has been no shortage of funds for any purpose, and though open-market rates on commercial paper are higher than a year ago, they are still at a level below the average of the past ten years.

The growth of security loans is not, in the Board's opinion, in itself evidence of the speculative nature of the rise in security prices. To finance the transactions in securities at higher prices requires a larger volume of bank credit, and this would be true, whether the rise in prices was speculative in character, or reflected a genuine increase in the values represented by the securities, that is, a growth in corporate earning capacity. It is true, nevertheless, that the abundance of funds in the money market during the past two years has facilitated the expansion of security loans and thus the marketing of securities on a rising price level. The fundamental reason of the advance in security prices, however, has been that in the judgment of a large body of investors and speculators, securities, in view of the general business outlook, have been worth purchasing at a rising level of prices. The Board does not consider it to be a part of its functions to pass upon the soundness of the investors' judgment in this matter.

As already indicated, the constantly growing demand for bank funds to finance stock exchange operations has been a factor in the rise of open-market money rates during the past year. Rates on commercial paper and bankers' acceptances in the New York market have advanced by between 1 and 1 1/2 per cent since the summer of 1924, but this advance has been from the lowest point in many years and has not carried the rates to a level as high as that in 1923, when the volume of business activity was about the same as at the present time. Furthermore, it is only open-market rates in the financial centers that have advanced during the year. Rates charged to customers by banks throughout the country on loans for current operations, which constitute by far the largest use of bank credit, have remained practically

constant, and the cost of money to the majority of those engaged in agriculture, trade, and industry has been no higher in 1925 than in 1924.

You wish to know whether the rise in open-market rates has been "the true economic origin of the increase in interior reserve rates." It is certainly true that the level of open-market rates has been one of the factors considered by the reserve banks of Boston, Philadelphia, Cleveland, and San Francisco when they proposed to advance their rates from 3 1/2 to 4 per cent, the level prevailing at all the other reserve banks, outside of New York, and by the Board when it approved these advances. The rates had been reduced from 4 1/2 to 4 per cent during the summer of 1924, when rates in the market had been abnormally low, and with the recovery of open-market rates it became desirable to bring the reserve bank rates into better alignment with the market. Other factors considered in those rate advances were the growth of discounting by member banks in these districts, the rapid growth of the member banks' own loans, and other local business and trade conditions.

As was pointed out in the Board's earlier letter, member banks in New York City were not increasing their loans in 1925, and their borrowings at the reserve banks were no longer at the seasonal peak in the autumn and winter than in the early months of the year when reserve bank accommodation is usually at a low point. In view of the fact that there was no evidence of excessive borrowing at the New York bank in the autumn, it seemed undesirable to exert the influence of the reserve bank rate toward a further rise in the general level of money rates in the New York market. Such a rise might have been an influence toward a renewal of the gold movement to this country, which, as was pointed out before, has been the principal cause of credit expansion in the previous four years. In view of the more direct influence of the New York market on international financial movements, these considerations have greater weight at the New York reserve bank than at reserve banks in other districts. In the last weeks of 1925 loans by banks in New York City increased rapidly and at the first meeting of the Board of Directors of the New York reserve bank in 1926 the discount rate was advanced from 3 1/2 to 4 per cent, making the level of rates uniform for all the reserve banks.

In connection with your question, whether the Federal reserve system has contributed to the growth of speculation in securities, the Board wishes to submit a chart (Chart F) which shows changes in the volume of reserve bank credit outstanding, including discounts for member banks and acceptances and United States securities bought in the open market, compared with the volume of money in circulation during the two years 1924 and 1925. This chart brings out the fact that the principal factor influencing the volume of reserve bank credit in use is the demand for currency by the public. Comparisons of the volume of reserve bank credit in midsummer and at the turn

C O P Y

Hon. I. L. Lenroot. - #4

of the year are misleading, because the much larger demand for reserve bank credit in the autumn months reflects chiefly a seasonal demand for currency, which is followed by a rapid return flow of currency and a consequent decrease in reserve bank credit outstanding during the early weeks of each year. While fluctuations in reserve bank credit have been caused by changes in the currency demand, the higher general level of reserve bank credit during the past year has been due in part to the withdrawal of gold for export and in part to the maintenance of reserve balances of member banks at a higher level than the year before owing to the larger volume of their own deposit liabilities. A full discussion of the factors influencing the volume of reserve bank credit appears in the Federal Reserve Bulletin for this month, and a copy of the article containing this discussion is attached.

The suggestion contained in your letter, that the Board undertake to secure streetloan information officially and publish it regularly, is one that has been under careful consideration by the Board since last April on the recommendation of its Division of Research and Statistics. The Division has worked out a plan for securing the figures in a form that will most adequately serve the public interest and will at the same time enlist the largest possible measure of voluntary cooperation by the reporting banks. The Board has recently approved the Division's recommendation in the matter, and as soon as the reporting system can be put into operation, the figures will be published regularly.

The earning assets of the system as of January 12th were as follows:

Discounts for member banks. . . . .	\$517,302,000
Acceptances purchased in open market. . . . .	333,957,000
U. S. Government securities , , , , ,	367,076,000
Other bills and securities. . . . .	<u>10,158,000</u>
Total . . . . .	\$1,228,493,000

I hope that this letter gives you the information you desire, and I wish to thank you on behalf of the Board for the interest you have shown in the problems with which the Federal reserve system has to deal.

Very truly yours,

(s) D. R. Crissinger,

Governor.

Hon. I. L. Lenroot,  
United States Senate,  
Washington, D. C.

C O P Y

REPORTING MEMBER BANKS IN LEADING CITIES

(In millions of dollars)

Last report date in	: Loans on securities	: All other loans 1/	: Total Loans	: Total investments	: Total loans and investments
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1924:

January	4,077	7,806	11,883	4,480	16,363
February	4,031	7,843	11,874	4,496	16,370
March	4,067	7,998	12,065	4,515	16,580
April	4,186	7,935	12,121	4,535	16,656
May	4,075	7,876	11,951	4,659	16,610
June	4,268	7,874	12,142	4,827	16,969
July	4,431	7,834	12,265	4,987	17,252
August	4,484	7,950	12,434	5,091	17,525
September	4,596	8,080	12,676	5,331	18,007
October	4,547	8,217	12,764	5,551	18,315
November	4,668	8,202	12,870	5,617	18,487
December	4,863	8,205	13,068	5,531	18,599

1925:

January	4,888	8,163	13,051	5,489	18,540
February	4,949	8,193	13,142	5,396	18,538
March	4,999	8,140	13,139	5,478	18,617
April	5,079	8,153	13,232	5,484	18,716
May	5,073	8,035	13,108	5,485	18,593
June	5,206	7,999	13,205	5,505	18,710
July	5,204	8,013	13,217	5,506	18,723
August	5,267	8,108	13,375	5,471	18,846
September	5,471	8,361	13,832	5,440	19,272
October	5,471	8,430	13,901	5,443	19,344
November	5,581	8,378	13,959	5,405	19,364
December	5,776	8,341	14,117	5,472	19,589

1/ Largely for agricultural and commercial purposes .

C O P Y

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UNITED STATES SENATE  
Committee on Foreign Relations

January 14, 1926.

Honorable D. R. Crissinger,  
Governor, Federal Reserve Board,  
Treasury Department,  
Washington, D. C.

My dear Governor:

I have yours of the 12th instant with enclosure of charts, which, I will carefully examine and just as soon as I get opportunity shall be glad to come up to the office and personally talk with you about the situation. As you know, I am in charge of the World Court matter, which is just now taking my entire time.

Very sincerely yours,

I. L. LENROOT.

CONFIDENTIAL

For use of Federal Reserve Board only

DEFICIENCIES IN RESERVES OF MEMBER BANKS FOR MONTH OF APRIL, 1926\*

St. 4982.

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See BM

Federal Reserve District	NUMBER OF BANKS PENALIZED				Member banks in district	NUMBER OF BANKS ASSESSED PENALTIES IN EXCESS OF MINIMUM RATE#				MAXIMUM RATE CHARGED#			AVERAGE DAILY DEFICIENCIES ON WHICH PENALTIES WERE ASSESSED			
	In F.R. bank and branch cities	In other reserve cities	Country banks	Total		In F. R. bank and branch	In other reserve	Country banks	Total	Banks in F.R. bank and branch	Banks in other reserve	Country banks	Banks in F.R. bank and branch	Banks in other reserve	Country banks	Total
Boston	4	**	25	29	417	-	**	3	3	6	**	9½	15	**	78	93
New York	9	5	90	104	889	-	-	-	-	6	6	6	193	17	225	435
Philadelphia	4	**	46	50	758	-	**	2	2	6	**	7	23	**	109	132
Cleveland	10	4	65	79	860	1	-	7	8	6½	6	10	246	130	362	738
Richmond	10	3	158	171	590	-	-	46	46	6	6	10	21	4	1,012	1,037
Atlanta	7	1	70	78	492	1	-	29	30	6¾	6	8	171	86	556	813
Chicago	9	4	172	185	1,377	-	-	33	33	6	6	10	238	93	564	895
St. Louis	14	**	85	99	622	-	**	-	-	6	**	6	154	**	264	418
Minneapolis	3	1	68	72	816	-	-	-	-	6	6	6	54	3	154	211
Kansas City	6	10	77	93	1,018	1	-	22	23	10	6	10	99	208	168	475
Dallas	4	5	69	78	847	-	-	13	13	6	6	10	17	29	259	305
San Francisco	22	-	63	85	724	-	-	15	15	6	6	10	186	-	199	385
Total - Apr. '26	102	33	988	1,123	9,410	3	-	170	173	10	6	10	1,417	570	3,950	5,937
Mar. '26	97	29	1,046	1,172	9,425	1	1	177	179	8¾	8	10	1,134	441	3,716	5,291
Apr. '25	98	31	1,048	1,177	9,540	-	2	150	152	6	9	10	1,059	381	3,353	4,793

FEDERAL RESERVE BOARD  
DIVISION OF BANK OPERATIONS  
JUNE 12, 1926.

\*Figures for country banks are for the calendar month, and for central reserve and reserve city banks for four and five-week periods.

\*\*Federal reserve bank and branch cities are the only reserve cities in the district.

#Progressive penalty rates are not applied by the F. R. Banks of New York, St. Louis and Minneapolis, the Atlanta bank has a maximum penalty rate of 8 per cent, the eight remaining banks a maximum of 10 per cent.

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS,  
MAY, 1926.

Total earnings of the Federal reserve banks in May were \$80,000 less than in April, though earnings were accrued for 1 day more in May. Earnings from discounted bills fell off \$80,000 and miscellaneous earnings \$90,000, but these reductions were partly offset by an increase of \$90,000 in earnings on purchased bills and U. S. securities.

Current expenses in May amounted to \$2,305,000 - about \$10,000 more than in May 1925, but for the 5-month period there was a reduction of \$340,000 as compared with the same period last year. Current expenses exclusive of the cost of currency were less during the 5-month period at all of the Federal reserve banks except Boston, Philadelphia, Atlanta and St. Louis, the declines ranging from \$10,000 at Kansas City to \$112,000 at San Francisco. The increase in the case of Philadelphia was \$45,000, Boston \$29,000, Atlanta \$42,000 (\$26,000 at Jacksonville), and St. Louis \$13,000.

After providing for all current expense and dividend requirements, the Federal reserve banks on May 31 had a balance of nearly \$4,700,000 available for depreciation allowances, surplus, and franchise taxes, as compared with \$3,800,000 a month earlier and \$1,200,000 at the end of May last year. The balances available ranged from \$94,000 at Minneapolis and \$243,000 at Richmond, to \$675,000 in the case of New York.

C O N F I D E N T I A L  
Not for publication

## EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

St. 4985

Federal Reserve Bank	Month of May 1926				Year 1926						
	Earnings				Current ex-penses	Current net earnings	Annual rate of current net earnings on average paid-in capital	Current net earnings to May 31	Dividends accrued to May 31	Balance available for depreciation allowances, surplus, franchise tax, etc.	
	From dis-counted bills	From pur-chased bills and U. S. securities	From other sources	Total						On May 31	On Apr. 30
Boston	\$84,819	\$109,548	\$13,259	\$207,626	\$166,816	\$40,810	5.5	\$654,739	\$214,773	\$439,966	\$440,201
New York	409,625	434,282	25,611	869,518	799	321,710	10.7	521,865	847,336	674,529	529,004
Philadelphia	168,922	108,906	12,597	290,425	171	4	11.5	605,612	296,647	308,965	250,878
Cleveland	176,909	167,117	15,733	359,759	121	4	12.1	662,247	334,319	327,928	256,674
Richmond	158,438	49,749	8,064	216,251	146,886		19.3	394,698	150,723	243,975	174,950
Atlanta	119,577	82,387	8,206	210,122	2,634	87	20.9	673,416	121,562	551,854	489,041
Chicago	11,303	253,831	30,669	475,803	302,575	172,228	12.4	990,389	402,863	587,526	496,485
St. Louis	90,577	107,080	3,954	201,611	115,780	6,31	19.3	425,175	129,444	295,731	235,848
Minneapolis	23,509	107,689	14,218	145,416	88	56,773	21.2	173,379	78,971	94,408	53,368
Kansas City	68,427	147,785	23,663	239,875	138,610	101,265	28.0	430,866	106,105	324,761	244,771
Dallas	33,406	129,467	3,327	166,200	100,744	65,456	17.9	359,159	107,203	251,956	207,979
San Francisco	160,485	207,656	12,977	381,118	211,630	169,488	23.8	781,692	207,481	574,211	446,687
<b>TOTAL:</b>											
May 1926	1,685,949	1,905,497	172,278	3,763,724	2,304,647	1,459,073	14.0	7,673,237	2,997,427	4,675,810	3,825,886
Apr. 1926	1,766,676	1,812,361	264,676	3,843,713	2,298,413	1,545,300	15.5				
May 1925	1,239,241	1,829,194	340,936	3,409,371	2,294,916	1,114,455	11.4	4,072,734	2,842,507	1,230,227	688,821

FEDERAL RESERVE BOARD

DIVISION OF BANK OPERATIONS

JUNE 15, 1926.

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June 21, 26

REPORT OF THE CHAIRMAN TO THE  
OPEN MARKET INVESTMENT COMMITTEE

The report of the secretary gives the details of operations since the last meeting. As far as policy is concerned, the two principal problems center around the changes in the money market due to the tax period, and the policy of the committee for the coming few months in view of the general credit situation.

Tax Period

The detail of gains and losses to the New York money market as a result of tax period operations, together with the position of reserves of the New York banks from day to day, are shown in the following table. The table indicates that the New York banks started the tax period with reserves substantially under requirements, and as a consequence of this fact and of rapid income tax collections, the surplus of funds on June 15 and 16 was only temporary and by Friday, when the banks average up their reserves, the situation was again at equilibrium.

As this week begins the prospects are that the banks in principal centers will be steadily losing in their reserves through the accumulation of Treasury balances at the Reserve Banks. Just as the problem last week was to prevent too great ease in funds, so the problem this week will be to prevent too rapid a tightening; and the same may be true of next week, when semi-annual settlements will coincide with requirements of currency over the July 4 holiday. Various methods for offsetting a disturbance to the money market at this time may well be considered. The situation may be met partly by Treasury investment

of part of its surplus. It may be desirable also for the committee to make temporary purchases for a few days, and authority should be secured for such operations.

The General Situation.

At the time of the governors' conference there was some anticipation of a recession in business. Since that time there has been a reduction in some lines of business activity. Production in various textile lines has been considerably curtailed. Production of iron and steel has decreased slightly. Building activity is not quite as intense and reports for May by the New York State Department of Labor, and by the Philadelphia Reserve Bank for the Philadelphia district, indicate a decline of about 2 per cent in factory employment. Wholesale and retail trade have been a little unsatisfactory, but that may largely be ascribed to the weather. This about concludes the evidence of recession, for, in general, business has continued at high speed above what we may call normal activity. Car loadings are large; production is large in most lines of industry; automobile output is exceptional; bank debits indicate a very large measure of activity; and taking all the evidence together there has been no such recession as was anticipated earlier in the year.

As far as credit is concerned, the country has continued to require about the same volume of credit as in the spring and there has been no particular seasonal reduction.

Industrial stock averages now within 6 to 8 points of February high, and 10 points above March low; and rails are practically at the year's high. The recent rise appears to be stimulated by general belief that money will be very cheap, and by apparent failure of expected business recession to materialize.

In the past few days the market has apparently been influenced by temporary ease of money over tax period and some misunderstanding of effect on money of Treasury's not putting out new issue.

The rise in stock prices has been accompanied by an increase of less than 100 million in brokers loans, which are still 700 million below the peak. Stocks are being carried much more largely on loans direct to customers by banks outside New York City. These banks are lending 400 million less to brokers in New York, but their total loans on stocks and bonds are as large as at year's high point. Thus the total amount of credit employed in carrying securities has decreased much less than the brokers loan reports indicate and is only about 200 million below the high point.

The general situation may be summarized by saying that the picture is not clear as to which direction business and credit are likely to take. A further expansion in business and in speculation is possible; on the other hand, a continued recession in business is possible. Under these conditions it would seem wise for the Open Market Committee to maintain its holdings of securities at \$275,000,000, or thereabouts, except for such temporary changes as may be necessary in the next two weeks.

June 18, 1926

GAINS AND LOSSES TO NEW YORK MONEY MARKET

JUNE 12 14 15 16 17 18 19

Gains to the market:

Treasury transactions:

Notes redeemed (Net)	0	0	110	3	0	0	0	0 200 0
Interest paid	0	0	29	5	2	1		
Checks and warrants cashed	2	3	3	4	2	6		
Securities purchased	0	2	12	0	0	0		

Commercial and agency transactions:

Securities purchased for other Federals	0	7	0	0	0	0	0	0 100 2
Transfers and check settlements	1	0	54	22	0	0		
Net coin and currency receipts	0	0	4	3	0	0		
Operations for foreign accounts (Net)	0	0	1	0	0	0		

Reserve Bank Transactions:

Acceptances bought	0	6	3	0	1	6	0	0 0 0 0 0 5
Acceptances, sales contracts, increase	0	13	0	0	0	15		
Securities, sales contracts, increase	0	0	0	0	0	4		
Securities bought for System's account	0	6	1	0	20	5		
Net increase in loans to New York City banks	0	0	0	0	5	31		
Total gains	3	37	217	37	30	68		

Losses by market:

Treasury transactions:

Income taxes collected	2	3	6	75	18	16	11
Customs and other receipts	2	2	5	6	2	0	1
Foreign debt payments (cash)	0	0	4	0	0	0	0

Commercial and agency transactions:

Transfers and check settlements	0	1	0	0	19	21	22
Net coin and currency payments	1	0	0	0	8	7	0
Operations for foreign accounts - net -	1	2	0	0	0	1	0
Gold exports	0	0	0	1	0	0	0

Reserve bank transactions:

Acceptances matured	0	6	4	4	4	5	0
Acceptances, sales contracts, decrease	0	0	0	11	7	0	0
Securities sold from System's account	10	40	10	0	0	0	0
Net decrease in loans to New York City banks	7	6	39	8	0	0	13
Total losses	23	60	68	105	58	50	49

Net gain for day			149			18	
Net loss for day	20	23		68	28		42

Reserve position of 23 leading New York City banks:

Actual reserves at opening of business	595	569	537	680	648	599	614
Average reserves	604	569	558	589	601	600	602
Reserve requirements	602	599	599	603	603	603	602

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see BH

June 18, 1926.

REPORT ON FOREIGN ACCOUNTS

To the Members of the  
OPEN MARKET INVESTMENT COMMITTEE.

Since the last complete report to the Governors on the foreign accounts which was made at the Conference in March, there has been a further increase in the total amount of foreign monies with us, the aggregate now being \$192,000,000 as compared with \$187,000,000 on March 10 and \$63,000,000 one year ago. The important changes in the foreign accounts have been as follows: (1) decreases of \$5,000,000 and \$23,000,000 in the bills held respectively for the National Bank of Hungary and the Reichsbank, and (2) increases in the holdings of Treasury securities of about \$1,000,000 for the Agent General for Reparation Payments, \$5,000,000 for the Bank of England and \$4,000,000 for the National Bank of Hungary.

The gold held under earmark for foreign banks has increased from \$32,000,000 to \$52,000,000, this increase being accounted for in the holdings of the Reichsbank.

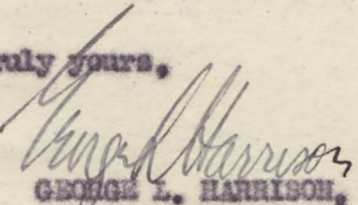
With respect to the loans on gold to the Bank Polski, the second renewal period of three months expired on May 25. Due to the unsettledness in Poland at that time, we thought it advisable to cable for further assurances as to the status of the Bank Polski before continuing the credit for another three months and fixing a rate to be effective for that period. A satisfactory reply to our inquiry was promptly received from Poland and we accordingly extended the credit for another three months to mature August 25 at the same rate, namely

June 18, 1926.

4-1/2%. You will observe that the amount of advances to the Bank Polski outstanding at present is \$7,500,000, a decrease of \$1,300,000 since March 10. You will recall that the agreement entered into with the Bank Polski on August 25, 1925, called for a three months credit with three renewals so that the present agreement expires at the end of the existing renewal on August 25, 1926.

A comparative statement of the foreign accounts in detail is attached hereto for the information of the Committee.

Very truly yours,

  
GEORGE L. HARRISON,  
Deputy Governor.

JEO:IK

**REPORT TO OPEN MARKET INVESTMENT COMMITTEE**  
(Figures as of June 16, 1926.)

COMPARATIVE STATEMENT OF FOREIGN ACCOUNTS

	To-day	Report to Governors' Conference 3/10/26	Year Ago
Total Balances	\$ 6,355,954.80	\$ 4,814,815.51	\$ 6,007,392.29
Total Bills	55,089,417.84	83,008,377.21	33,459,616.62
Total Treasury Securities	72,876,000.00	61,945,000.00	2,738,000.00
Total Gold Earmarked	52,900,000.00	32,400,000.00	14,914,260.00
Sub Totals	\$187,221,372.64	\$182,168,192.72	\$57,119,268.91
Custodies not participated	5,426,510.21	5,431,312.24	6,747,172.94
<b>TOTALS</b>	<b>\$192,647,882.85</b>	<b>\$187,599,504.96</b>	<b>\$63,866,441.85</b>

	FREE BALANCES		BILLS		TREASURY SECURITIES		EARMARKED GOLD	
	6/16/26	3/10/26	6/16/26	3/10/26	6/16/26	3/10/26	6/16/26	3/10/26
Agent General for Reparation Payments	\$ 49,479.20	\$ 31,186.14	\$ 0	\$ 0	\$ 6,165,000.00	\$ 4,945,000.00	\$ 0	\$ 0
Bank of England	1,791,368.14	1,348,510.98	0	0	50,250,000.00	45,000,000.00	0	0
Bank of France	65.80	65.80	0	0	0	0	0	0
Bank of Japan	500,082.78	500,340.11	4,532,220.62	4,533,841.45	0	0	0	0
Bank Polski	131,713.26	124,365.99	0	0	0	0	0	0
Bank of the Republic of Colombia	976,053.47	1,482,517.43	0	0	0	0	1,500,000.00	1,000,000.00
Banque Nationale Suisse	99,567.96	99,722.61	14,442,272.03	14,749,598.19	0	0	6,400,000.00	6,400,000.00
Czechoslovak National Bank	100,057.97	100,159.68	0	0	0	0	0	0
De Javasche Bank	250,618.05	250,181.45	7,883,227.25	7,747,618.31	0	0	0	0
De Nederlandsche Bank	250,151.03	249,981.37	14,346,079.71	14,165,214.41	0	0	0	0
National Bank of Belgium	855.20	841.68	0	0	0	0	0	0
National Bank of Hungary	99,720.70	100,005.63	191,726.79	5,658,175.58	4,461,000.00	0	0	0
Reichsbank	1,906,491.40	379,049.26	13,693,891.44	36,153,929.27	0	0	45,000,000.00	25,000,000.00
Sveriges Riksbank	199,729.84	147,887.38	0	0	12,000,000.00	12,000,000.00	0	0
<b>TOTALS</b>	<b>\$6,355,954.80</b>	<b>\$4,814,815.51</b>	<b>\$55,089,417.84</b>	<b>\$83,008,377.21</b>	<b>\$72,876,000.00</b>	<b>\$61,945,000.00</b>	<b>\$52,900,000.00</b>	<b>\$32,400,000.00</b>

FOREIGN LOANS ON GOLD

To	Amount	Rate	Maturity Date	Gold Collateral Amount	Held by
Bank Polski	\$7,500,000.00	4-1/2%	Aug. 25, 1926	\$10,595,596.16	Bank of England.

TOTAL COMMISSIONS EARNED

From 3/11/26 to 6/16/26 inclusive.

	Agent General	Bk. of Japan	Banque Natl. Suisse	De Javasche Bk.	De Neder- landsche Bk.	N.B. of Hungary	Reichsbank	Sveriges Riksbank	Totals
Bankers Acceptances	\$ 0	\$ 1,307.42	\$ 4,538.85	\$ 2,704.77	\$ 4,571.63	\$ 56.99	\$ 6,201.78	\$ 0	\$ 19,881.44
Treasury Securities	1,143.50	0	0	0	0	978.92	0	2,200.34	4,322.76
									\$ 24,204.20

FEDERAL RESERVE BANK OF NEW YORK.

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REPORT OF THE SECRETARY TO THE OPEN MARKET INVESTMENT  
COMMITTEE MEETING AT WASHINGTON  
JUNE 21, 1926

The activities of the Open Market Investment Committee since its last meeting held in Washington on March 20, 1926, have been confined largely to transactions in the System Special Investment Account. Following the policy outlined at that meeting and in line with the Committee's recommendation that

"If developments in the money market indicate any need for doing so, the amount of securities in the System Account be increased to \$300,000,000"

which was approved by the Federal Reserve Board on March 25, 1926, with the stipulation by the latter that

"no purchases shall be made after April 15, 1926, without further consideration,"

the Committee authorized the purchase from time to time of short-term Government securities in the market as a result of which the holdings in this account aggregated \$275,000,000 by April 15. Transactions during the June 15 tax period consisted of the sale and redemption of securities aggregating \$51,000,000 of which \$36,500,000 represented maturing obligations, and \$14,500,000 sales of other issues to foreign accounts to replace their June 15 maturities; also purchases in replacement of approximately \$45,500,000, as a result of which the holdings in the System Account at the present time aggregate \$270,500,000.

Special allotments of System investments were made during the period as follows: - on April 16, at the request of the Atlanta bank, their participation in Government securities held in the System Special Investment Account amounting to \$15,998,500 was prorated to other reserve banks in exchange for a like amount of bankers acceptances in order that the Atlanta bank might maintain the proper gold reserve to deposit liability occasioned by large shipments of Federal reserve notes to meet a temporary currency condition at their Havana agency. As the Atlanta bank has not yet been in a position to take back these

governments, the New York bank has from time to time replaced the bills which matured through the sale to date from its portfolio of approximately \$12,000,000. The Federal Reserve Bank of New York also sold from its portfolio to the Federal Reserve Bank of Minneapolis about \$10,000,000 of bills on April 12 in order to be of assistance in building up their declining earning assets.

The Federal Reserve Bank of St. Louis on March 31, 1926, requested that they be relieved temporarily of participating in System purchases of bills and securities. In order to be of further assistance the Committee purchased from the St. Louis bank from March 31 to June 1, bills aggregating \$10,650,000 which were redistributed to the other participating banks. By June 7, however, their improved position permitted them to resume their participation in both governments and bills.

The United States Treasury found it unnecessary to make any offering of Government securities on June 15 and similarly found it unnecessary to withdraw any funds from its government depositaries. The redemption of maturing obligations, however, resulted in a temporary surplus of funds in the market and the Committee made temporary sales to various banks in New York during the period from June 12 to 18 of Government securities from the System Special Investment Account aggregating \$25,000,000. The selling of these securities exerted a stabilizing influence on the money market so that call rates did not go below 3 1/2%.

The heavy tax payments on and immediately following June 15 will result in the Treasury accumulating substantial balances in the Federal reserve banks, but this is to be taken care of in part by purchases of Third 4 1/4% Liberty Loan Bonds.

Attached are the following exhibits:

"A" Statement Showing Participation of Federal Reserve Banks in System Special Investment Account and Classifications of Issues Held in the Account by Maturities.

- "B" Statement Showing Purchases of Bankers Acceptances from January 4 to June 16, 1926, and Amount Each Bank Has Received in Excess or Short of Its Pro Rata Share.
- "C" Statement Showing Earning Asset Holdings of All Reserve Banks June 16, 1926, as Compared with Previous Week, Also Weekly Average from December 31, 1925, to June 16, 1926, as Compared with Corresponding Period of 1925.
- "D" Statement Showing Estimated Net Earnings Over Expense and Dividend Requirements for year 1926, of all Reserve Banks based on Figures Furnished Committee as of May 31, 1926; Also Estimated Charge-offs for Entire Year.

## Exhibit "A"

STATEMENT SHOWING PARTICIPATION BY FEDERAL RESERVE BANKS IN SYSTEM SPECIAL INVESTMENT  
ACCOUNT AND CLASSIFICATION OF ISSUES HELD IN THE ACCOUNT BY MATURITIES

	<u>Holdings</u>		<u>Holdings By Maturities</u>
Boston	\$ 11,856,500	September 15, 1926	\$ 50,522,000
New York	71,359,500	December 15, 1926	45,203,000
Philadelphia	6,654,000	March 15, 1927	83,228,200
Cleveland	17,855,000	December 15, 1927	46,121,300
Richmond	7,870,500	September 15, 1928	45,425,500
Atlanta	0	3rd L/L bonds	
Chicago	35,482,000		
St. Louis	18,563,000		
Minneapolis	12,069,500		
Kansas City	24,338,500		
Dallas	24,977,000		
San Francisco	<u>39,474,500</u>		
Totals	<u>\$270,500,000</u>		<u>\$270,500,000</u>

PURCHASES OF BANKERS ACCEPTANCES FROM JANUARY 4 TO JUNE 16, 1926 AND AMOUNT  
EACH BANK HAS RECEIVED IN EXCESS OR SHORT OF ITS PRO RATA SHARE  
UNDER APPORTIONMENT PLAN PUT INTO EFFECT JANUARY 4, 1926

---

	Bills Acquired (Net)	Bills Entitled to Acquire	Bills Over Pro Rata Share	Bills Short Pro Rata Share
Boston	\$ 51,505,000	\$ 48,945,000	\$2,560,000	\$ 0
New York	163,615,000	165,606,000	0	1,991,000
Philadelphia	55,567,000	55,937,000	0	370,000
Cleveland	68,699,000	69,918,000	0	1,219,000
Richmond	35,667,000	35,817,000	0	150,000
Atlanta	33,133,000	32,451,000	682,000	0
Chicago	98,373,000	97,887,000	486,000	0
St. Louis	31,808,000	31,898,000	0	90,000
Minneapolis	28,854,000	28,824,000	30,000	0
Kansas City	41,822,000	41,953,000	0	131,000
Dallas	28,912,000	28,824,000	88,000	0
San Francisco	<u>63,036,000</u>	<u>62,931,000</u>	<u>105,000</u>	<u>0</u>
Totals	<u>\$700,991,000</u>	<u>\$700,991,000</u>	<u>\$3,951,000</u>	<u>\$3,951,000</u>

These figures reflect purchases allotted on basis of regular percentages  
but do not include inter-System sales from portfolio.

STATEMENT SHOWING EARNING ASSET HOLDINGS OF ALL FEDERAL RESERVE BANKS JUNE 16, 1926 COMPARED WITH PREVIOUS WEEK AND JUNE 17, 1925; ALSO WEEKLY AVERAGE OF EARNING ASSETS FROM DECEMBER 31, 1925 TO JUNE 16, 1926 AS COMPARED WITH CORRESPONDING PERIOD 1925 AND ENTIRE YEAR 1925

(000 Omitted)

		Boston	New York	Philadelphia	Cleveland	Richmond	Atlanta	Chicago	St. Louis	Minneapolis	Kansas City	Dallas	San Francisco	Total
Bills Discounted	- June 9	\$22,552	\$114,013	\$45,371	\$43,765	\$46,013	\$35,232	\$46,311	\$24,593	\$5,940	\$20,117	\$11,142	\$33,114	\$ 448,163
"	" 16	18,953	67,066	43,064	44,359	45,438	36,610	43,555	22,912	4,149	18,637	11,309	37,278	393,330
Net Change		3,599-	46,947-	2,307-	594+	575-	1,378+	2,756-	1,681-	1,791-	1,480-	167+	4,164+	54,833-
Bills Purchased	- June 9	16,153	65,898	13,108	23,263	11,173	24,919	31,676	4,987	11,822	12,625	10,792	23,405	249,821
"	" 16	14,123	44,070	14,755	22,328	11,647	27,939	32,267	6,432	10,713	12,768	10,974	25,143	233,159
Net Change		2,030-	21,828-	1,647+	935-	474+	3,020+	591+	1,445+	1,109-	143+	182+	1,738+	16,662-
Government Securities	- June 9	18,465	83,859	24,215	38,554	9,925	3,847	60,535	30,114	20,720	39,789	35,564	52,721	418,308
"	" 16	21,808	160,293	26,830	48,907	8,286	1,849	67,483	23,853	18,209	33,251	26,958	44,508	482,235
Net Change (Board Report)		3,343+	76,434+	2,615 +	10,353+	1,639-	1,998-	6,948+	6,261-	2,511-	6,538-	8,606-	8,213-	63,927+
* Net Change (drafts-Including temporary sales)		6,061-	12,971-	2,770-	1,997-	911-	1,998-	4,773-	4,546-	1,396-	4,288-	6,297-	4,565-	* 52,573-
Total Earning Assets	- June 9	57,808	266,072	85,617	106,481	67,556	65,594	139,673	60,055	39,251	72,859	57,792	109,820	1,128,578
"	" 16	55,454	273,484	87,362	116,397	65,768	67,398	144,333	53,520	33,811	64,948	49,504	107,447	1,119,426
Net Change (Board Report)		2,354-	7,412+	1,745+	9,916+	1,788-	1,804+	4,660+	6,535-	5,440-	7,911-	8,288-	2,373-	9,152-
* Net Change (drafts-Including temporary sales (Govt. Securities))		11,758-	81,993-	3,640-	2,434-	1,060-	1,804+	7,061-	4,820-	4,325-	5,661-	5,979-	1,275+	* 125,652-
<u>Weekly Average of Earning Assets</u>														
Dec. 31, 1925 to June 16, 1926		87,653	268,364	91,082	106,718	58,675	74,017	149,378	61,854	35,520	66,834	52,902	110,731	1,163,728
Corresponding period 1925		86,801	293,907	81,640	113,077	49,349	34,106	132,452	43,100	32,434	48,122	39,036	98,218	1,052,242
Net Change		852+	25,543-	9,442+	6,359-	9,326+	39,911+	16,926+	18,754+	3,086+	18,712+	13,866+	12,513+	111,486+
Dec. 31, 1925 to June 16, 1926		87,653	268,364	91,082	106,718	58,675	74,017	149,378	61,854	35,520	66,834	52,902	110,731	1,163,728
Entire year 1925		93,459	287,133	85,078	113,904	54,734	56,548	138,045	55,936	37,271	57,293	49,024	109,866	1,138,291
Net Change		5,806-	18,769-	6,004+	7,186-	3,941+	17,469+	11,333+	5,918+	1,751-	9,541+	3,878+	865+	25,437+
<u>Comparison of Earning Assets</u>														
June 16, 1926		55,454	273,484	87,362	116,397	65,768	67,398	144,333	53,520	33,811	64,948	49,504	107,447	1,119,426
June 17, 1925		67,550	210,220	79,064	98,451	68,221	56,854	126,526	56,063	40,552	53,546	47,662	102,487	1,007,196
Net Change		12,096-	63,264+	8,298+	17,946+	2,453-	10,544+	17,807+	2,543-	6,741-	11,402+	1,842+	4,960+	112,230+

SUMMARY FOR SYSTEM

Bills discounted for week			
Bills purchased for week			
Government securities for week			
Total earning assets for week			
Weekly average of earning assets Dec. 31, 1925 to June 16, 1926 against corresponding period 1925			
Weekly average of earning assets Dec. 31, 1925 to June 16, 1926 against entire year 1925			
Comparison of earning assets June 16, 1926 with June 17, 1925			
	Net Change Based on Board Report	Net Change Excluding Over-drafts and Including Temporary Sales Govt. Sec. System Account	
	\$54,833-		
	16,662-		
	63,927+	52,573-	
	9,152-	125,652-	
	111,486 +		
	25,437+		
	112,230+		

\* These figures of net changes in Government securities and total earning assets exclude \$141,500,000 temporary advances to Treasury and include \$25,000,000 Government securities sold temporarily from System Account over tax period and repurchased by June 18, 1926.

## Exhibit "D"

STATEMENT SHOWING ESTIMATED NET EARNINGS OVER EXPENSE AND DIVIDEND REQUIREMENTS FOR YEAR 1926 OF ALL RESERVE BANKS BASED ON FIGURES FURNISHED THE COMMITTEE AS OF MAY 31, 1926; ALSO ESTIMATED CHARGE-OFFS FOR ENTIRE YEAR

	Net Earnings in Excess of Expenses and Dividends (Ex- cluding Charge-offs) May 31, 1926	Estimated Net Earn- ings in Excess of Expenses and Divi- dends (Excluding Charge-offs) December 31, 1926 (Based on Column 1)	Estimated Charge-offs for Year 1926
Boston	\$ 434,277	\$ 1,042,000	\$ 132,047
New York	644,154	1,546,000	455,000
Philadelphia	308,965	742,000	38,000
Cleveland	326,000	782,000	372,000
Richmond	244,000	586,000	105,000
Atlanta	551,854	1,324,000	525,327
Chicago	568,904	1,365,000	660,197
St. Louis	295,731	710,000	233,591
Minneapolis	128,189	308,000	95,946
Kansas City	322,281	773,000	166,024
Dallas	251,309	603,000	41,296
San Francisco	<u>575,000</u>	<u>1,380,000</u>	<u>725,000</u>
Totals	<u>\$4,650,664</u>	<u>\$11,161,000</u>	<u>\$3,549,428</u>

MINUTES OF JOINT MEETING OF THE OPEN MARKET INVESTMENT COMMITTEE  
AND THE FEDERAL RESERVE BOARD HELD IN WASHINGTON, MONDAY, JUNE 21, 1926

Present:

Vice Governor Platt  
Mr. Hamlin  
Mr. James

Members of the Board

Acting Chairman Case  
Governor Harding  
Governor Fancher  
Governor McDougal  
Governor Norris

Members of the Committee

Under Secretary of the Treasury Winston  
Mr. Matteson, Secretary  
Mr. Eddy  
Mr. Goldenweiser

The meeting was called to order at 11 a. m. by Vice Governor Platt.

Messrs. Norris and Case entered at 11:15 a. m.

Mr. Case reviewed briefly the operations of the Committee since the last meeting on March 20, 1926, the changes in the holdings of Government securities in the Special Account and the activities over the June 15 tax period. He stated that the principal occasion for calling the meeting was the problem of dealing with the money market situation over the end of June, when holiday currency requirements would coincide with the accumulation of a Treasury balance in the Reserve Banks and "window dressing" by member banks for their June 30 reports. It was also desired to discuss open market policy generally in the light of recent changes in the credit situation.

The Secretary submitted and read his report, also the report of the Chairman and the report on foreign accounts, with accompanying statements and data, all of which were duly accepted and ordered placed on file.

Under Secretary Winston joined the meeting at this point.

Mr. Winston stated that the Treasury would have surplus funds in the Federal Reserve Banks this month amounting to about \$75,000,000, a substantial part of which it was proposed to use in the purchase and redemption of Third

Liberty Loan Bonds and that he anticipated buying additional bonds for delivery the first of July when the Treasury would receive \$40,000,000 from the proceeds of the recent sale of \$60,000,000 Farm Loan Bonds.

There followed an extended discussion of the various reports, with particular reference to the desirability of a temporary purchase of Government securities by the Committee to prevent any serious disturbance to the money market over the end of the month, whereupon:

On motion of Mr. Hamlin, duly seconded and carried, it was

VOTED that it is expedient that the System holdings of Government securities should be maintained for the present at the existing amount - approximately \$275,000,000 - but with authority to make temporary purchases or sales, within a range of \$50,000,000, as may be deemed advisable by the Committee; any such purchases to be liquidated within a reasonable time as market conditions warrant.

In connection with the report on foreign accounts, a recommendation was made by the Federal Reserve Bank of New York that the reports to the Committee be made as heretofore at each meeting but that the brief reports to the Committee at the end of each month be discontinued for the reason that all of the information contained in these latter reports is included in the regular monthly statements of free balances, investments and ear-marked gold made to the governor of each bank. It was voted that this change be approved.

On motion the meeting adjourned at 1 p. m.

(Signed) W. B. Matteson,  
Secretary.

Subsequent to the adjournment of the meeting the members of the Open Market Investment Committee conferred with regard to a suggestion made by Governor McDougal of the Federal Reserve Bank of Chicago that Federal Reserve Banks be permitted to extend the repurchase agreement practice with recognized dealers in Government securities so as to include Third Liberty Loan Bonds, which bonds are now in the short-term area.

This recommendation was unanimously agreed to by the members of the Committee with the understanding that it was to be submitted by Mr. Case to the Federal Reserve Board for the latter's approval.

## Office Correspondence

FEDERAL RESERVE  
BOARD

Date April 27, 1926

To Mr. Hamlin

Subject: 142

From Mr. Goldenweiser  
E.G.

2-3495

Total reserve deposits of member banks on November 4, 1925 were \$2,246,000,000. Of this amount about \$300,000,000 were reserves against time deposits and the remainder was somewhat below \$2,000,000,000. Of this amount a little less than one-third or about \$600,000,000 may be estimated as representing reserves against deposits arising from security loans and a little more than two-thirds or about \$1,400,000,000 as reserves against deposits arising from commercial and agricultural loans. These estimates are based on the distribution of the loans of all member banks as reported in the June 30 call. It is understood, of course, that the estimates are quite rough.

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143  
May 12, 1926.

See 14

My dear Mr. McFadden:

I wish to acknowledge your letter of May 10 containing certain inquiries about Federal reserve note issues and reserves against deposits. In replying I should like first to give specific answers to your four questions and then to present a brief statement of the method of issuing Federal reserve notes, which may help to throw further light on the subject.

Your last question, which we shall answer first, is: "Must a 35 per cent gold or lawful money reserve be held against 'deferred availability' deposits?" Deferred availability items are not considered as a part of a reserve bank's deposit liabilities for the reason that they represent items in process of collection against which a member bank can not draw. As soon as these items are collected the member banks are given credit for them in their deposit accounts against which the reserve banks are required to maintain a minimum reserve of 35 per cent.

Your first question is: "Does the Federal reserve bank pay interest on all notes issued to it by its agent until returned, or gold or lawful money is paid to the agent for redemption when returned?" The Federal reserve banks do not pay interest on notes issued to them by the Federal reserve agents. By the provisions of the Federal Reserve Act the interest to be charged on notes issued by the agents to the reserve banks is within the discretion of the Federal Reserve Board, and the Board has never deemed it desirable to impose an interest charge on notes issued. Inasmuch as all surplus earnings are turned over to the United States Treasury in any case, the only purpose of a special interest charge for Federal reserve notes issued to Federal reserve banks by Federal reserve agents would be to act as a particular restraint upon the issue of Federal reserve currency. It is the view of the Board that restraint upon the use of Federal reserve bank credit, whether in the form of deposits credit or of Federal reserve note currency, can be attained through changes in discount rates and through open-market operations, and that these forms of restraint when correctly adjusted to credit and business conditions are adequate and effective.

Your second question is: "Does the Federal reserve bank maintain a 40 per cent gold reserve against those notes until returned to the agent, or gold or lawful money substituted?" While all notes issued to the reserve bank by the agent must be fully covered by eligible collateral, no reserve is required against such notes until they are paid out and thus put into actual circulation by the reserve banks. Against notes in actual circulation the Federal reserve banks are required by the Act to maintain a gold reserve of not less than 40 per cent.

Your third question is: "Can a note issued by a Federal reserve bank and returned to it by another Federal reserve bank for redemption be reissued except as an original issue from its agent?" Yes. When a note is returned to a Federal reserve bank whose name it bears the disposition made of it depends upon the condition of the note. If the note is fit for circulation, it is added to the reserve bank's supply of notes on hand as explained below. If it is unfit, it is presented to the Federal reserve agent for retirement.

The process by which Federal reserve notes get into circulation may be briefly described as follows:

When a customer of a member bank needs more currency, he goes to his bank to obtain it. If his balance is not sufficient to cover his requirements, he discounts his note and withdraws the proceeds in cash. Since member banks do not carry in their vaults, as a rule, more currency than their experience proves is necessary for their day to day requirements any considerable withdrawal of cash will oblige the member bank to draw on its balance with the Federal reserve bank to replenish its currency supply. If the member banks reserve balance is thereby reduced below legal requirements, it may borrow from the Federal reserve bank and take the proceeds of the credit thus established in the form of Federal reserve notes. These Federal reserve notes would be furnished by the Federal reserve banks out of the supply which they keep on hand in their own tills in order always to be prepared promptly to meet the currency requirements of their member banks. The Federal reserve notes held on hand by the Federal reserve banks are fully secured by collateral, consisting of gold or eligible paper pledged with the Federal reserve agents. When the Federal reserve bank finds it necessary to replenish its supply of notes on hand, it obtains additional notes from the Federal reserve agent by pledging additional collateral. To the extent that the security offered by the bank to the agent for the notes consists of gold the transaction amounts merely to a substitution of one kind of currency for another and in no way affects the total amount of money in circulation.

The present position of the Federal reserve note account for the twelve reserve banks combined is shown by the Board's weekly condition statement of the reserve banks for May 5, 1926. On that date the total amount of Federal reserve notes issued by all Federal reserve agents was \$2,000,978,000. Of this amount, \$328,962,000 was held by the twelve Federal reserve banks, 23 branches, and 3 agencies in their own vaults to take care of current demands, and \$1,672,016,000 had been paid out by the Federal reserve banks into circulation. The collateral held by the Federal reserve agents against the notes issued amounted on that date to \$2,151,003,000, or \$150,025,000 in excess of the 100 per cent cover required. This collateral consisted of \$1,414,141,000 in gold and \$736,862,000 in eligible paper, i. e., paper discounted for member banks and acceptances purchased in the open market. In the balance sheet of the reserve banks the \$1,414,141,000 of gold with the agent, together with the \$45,892,000 of gold held by the reserve banks in the redemption fund with the United States Treasurer, is carried under the caption "Gold held exclusively against Federal reserve notes." This item on May 5 amounted to \$1,460,033,000, or 87.5 per cent of the Federal reserve notes in actual circulation.

I hope that this information satisfactorily answers your inquiry.

Very truly yours,

(Signed) D. R. Crissinger,  
Governor.

Hon. L. T. McFadden,  
Chairman, Banking and Currency Committee,  
House of Representatives,  
Washington, D. C.

C O N F I D E N T I A L

For use of Federal Reserve Board only

MEMBER BANKS BORROWING CONTINUOUSLY IN EXCESS OF CAPITAL AND SURPLUS DURING MAY, 1926,  
ALSO BORROWINGS OF ALL MEMBER BANKS AT THE END OF THE MONTH

St. 5012

148

See Bk

Federal Reserve District	GROUP I - All banks borrowing continuously in excess of capital and surplus during the month				GROUP II - Banks in Group I whose borrowings at the end of month were at least twice capital & surplus				GROUP III - All member banks in district				
	Num-ber	Capi-tal and surplus	Borrowings on May 31		Num-ber	Capi-tal and surplus	Borrowings on May 31		Accommo-dated during month	Total Num-ber	Capi-tal and surplus	Borrowings on May 31	
			Amount	Ratio to capital & surplus			Amount	Ratio to capital & surplus				Amount	Ratio to capital & surplus
Boston	2	\$ 450,000	\$671,000	149%	-	-	-	-	175	417	\$292,867,000	\$33,161,000	11.3
New York	4	425,000	521,000	123	-	-	-	-	387	894	1,176,400,000	157,922,000	13.4
Philadelphia	4	2,310,000	3,153,000	136	1	\$400,000	\$808,000	202%	402	760	405,100,000	51,102,000	12.6
Cleveland	4	362,000	516,000	143	-	-	-	-	310	861	450,333,000	53,159,000	11.8
Richmond	19	2,937,000	4,079,000	139	2	310,000	665,000	215	295	590	202,533,000	48,891,000	24.1
Atlanta	8	849,000	976,000	115	-	-	-	-	215	492	164,533,000	35,955,000	21.9
Chicago	38	2,439,000	4,269,000	175	8	521,000	1,626,000	312	527	1,372	552,233,000	49,525,000	9.0
St. Louis	21	5,545,000	7,945,000	143	1	55,000	110,000	200	216	621	175,734,000	41,447,000	23.6
Minneapolis	11	443,000	634,000	143	-	-	-	-	123	810	104,767,000	4,885,000	4.7
Kansas City	39	5,908,000	9,181,000	155	3	1,585,000	3,210,000	203	224	1,015	141,500,000	19,755,000	14.0
Dallas	3	276,000	386,000	140	-	-	-	-	211	844	143,000,000	10,493,000	7.3
San Francisco	13	1,717,000	2,310,000	135	2	175,000	386,000	221	197	724	279,867,000	41,771,000	14.9
TOTAL													
May 1926	166	23,661,000	34,641,000	146	17	3,046,000	6,805,000	223	3,282	9,400	4,088,867,000	548,066,000	13.4
Apr. 1926	140	24,549,000	34,588,000	141	12	2,290,000	4,802,000	209	3,155	9,410	4,071,166,000	571,673,000	14.0
May 1925	200	23,839,000	39,128,000	164	27	3,922,000	12,516,000	319	3,209	9,550	3,851,633,000	451,273,000	11.7

FEDERAL RESERVE BOARD

DIVISION OF BANK OPERATIONS

JULY 7, 1926.

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## Office Correspondence

FEDERAL RESERVE  
BOARD

Date May 8, 1926.

To Mr. Hamlin

From Mr. Smead

Subject:

The other day you asked me to give you an illustration bearing on the statement on page 84 of Mr. Goldenweiser's book on the Federal Reserve System, which reads as follows: "While an individual bank can increase its lending power through borrowing from a reserve bank by only slightly more than the amount it borrows, the lending power of the banking system increases by approximately 10 times that amount." The paragraph in which this sentence appears brings out the fact that while a bank need borrow only one dollar from the Federal reserve bank to support any actual increase of \$10 which has already taken place in its deposit liabilities, it can not reverse the process and increase its deposit liabilities by 10 times the amount of any substantial addition to its reserve balance with the reserve bank whether obtained by borrowing or otherwise. This is because the larger portion of deposits so created would not long remain on deposit with the borrowing bank but would be paid out to depositors in other banks in settlement for goods purchased or services rendered.

To illustrate let us assume that bank A has obtained an available balance at its reserve bank of \$1,000,000 by one of the following transactions: (1) deposit of currency, including imported gold, (2) deposit of checks on other banks in excess of the checks drawn on it and received from the reserve bank, (3) sale of acceptances or United States securities to the reserve bank, (4) sale of acceptances, commercial paper or securities in the open market, (5) borrowing from the reserve bank. If bank A utilized this available reserve balance by extending loans to its customers for deposit credit, it would, of course, be able to increase its deposits by ten times the amount of the available reserve, provided none of the deposit credit so granted was withdrawn, while if the credits granted were all withdrawn, as for example to make a payment in another city, or to obtain currency, bank A would lose the \$1,000,000 on deposit with its reserve bank and would have no increase in its own deposits. The bank's actual experience would ordinarily fall somewhere between these two extremes and would vary according to conditions. In so far as bank A sustained a loss of reserves through the withdrawal of deposits so created other banks would gain reserves correspondingly and would obviously in consequence, in the aggregate, have the same basis for additional expansion of deposits as bank A would have had if no withdrawal of deposits had occurred. The original balance of \$1,000,000 to the credit of bank A may therefore become widely diffused among many banks, and these banks in the aggregate can expand their deposits by ten times the amount of this balance, if as has been assumed it is used solely as a reserve against deposits. In actual practice this would not be the case, however, as some of the banks to which the reserve credit was transferred would use it to liquidate indebtedness at the Federal reserve bank, some to obtain needed currency, and others, of course, to support additional deposit credits granted to their customers.

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Serial  
**Office Correspondence**
FEDERAL RESERVE  
BOARD
 151  
 Date May 6, 1926
To Mr. Hamlin

Subject: \_\_\_\_\_

From Mr. Goldenweiser  
808

2-8495

Supplementing my memorandum on the effect of reestablishing the old act on reserve position of the reserve banks, I want to say that the volume of Federal reserve notes outstanding on April 28, 1926 was \$2,001,000,000 and that the total amount of discounted and purchased paper was \$713,000,000, leaving \$1,288,000,000 of notes that would have to be covered by gold. Notes that would be covered by gold under the original act would not be a liability of the Federal reserve banks and, therefore, the note liability which is now \$1,662,000,000 would be reduced to \$374,000,000.

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## Office Correspondence

FEDERAL RESERVE  
BOARD

ser 2a

To Mr. HamlinDate May 6, 1926From Mr. Goldenweiser

Subject: \_\_\_\_\_

The principal effect of adopting the original provisions about note issues would be to count the gold with the Federal reserve agent as in reduction of liability on Federal reserve notes by the Federal reserve banks and thus to reduce the reserves of the bank and their liability on Federal reserve notes by that amount. The following table shows the effect that the change would have on the reserves, liabilities, and reserve percentage of the reserve banks. In making the calculation it was considered that the entire amount of discounted and purchased paper was used as a basis for note issues and that gold was impounded with the agent only for the excess of Federal reserve notes above that total.

RESERVE POSITION OF FEDERAL RESERVE BANKS ON APRIL  
28, 1926

(In millions of dollars)

	<u>Actual</u>	<u>As under</u> <u>original F.R. act</u>
Reserves, total	2,954	1,666
Excess reserves (free gold)	1,505	881
Liability on notes in circulation	1,662	374
Liability on deposits	2,242	2,242
Reserve percentage	75.7	63.7

## Office Correspondence

FEDERAL RESERVE  
BOARDDate May 17, 1926To Mr. Hamlin

Subject: \_\_\_\_\_

From Mr. Goldenweiser

2-8496

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This is in response to your request of May 15 that we verify in a general way a statement attributed to Governor Strong to the effect: "That prices on the New York Stock Exchange during the recent speculative boom were not far out of line with prices before the war."

The records show that for the 50 stocks used by the New York Times the average price at the peak of the market last February was about \$138 per share, comparable with about \$86 per share in September, 1912, which was the highest figure during the four years 1911-1914. According to this comparison, stocks were in February about 49 per cent higher than before the war.

Wholesale prices for commodities in February were 55 per cent higher than in 1913.

Governor Strong's statement, I understand, was intended to call attention to the fact that stock prices, relatively speaking, are no higher than commodity prices, when comparison is made with prices prevailing before the war. I do not think that this signifies, however, that stock prices were on a reasonable level, since the proper measure of security prices is the earning power of corporations rather than the prevailing level of commodity prices.

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# Office Correspondence

FEDERAL RESERVE  
BOARD

153  
Date May 5, 1926

To Mr. Hamlin

Subject: \_\_\_\_\_

From Mr. Goldenweiser

2-8406

I am pleased to transmit herewith the attached statement which gives the information requested in your memorandum of May 4.

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	Production: :(1919=100):	Prices :(1913=100):	Net gold imports or exports 1/:	U. S. Discounts 2/:	U. S. securities 2/:	Acceptances 2/:	Total earning assets 2/:	New York discount rate 3/:
1920:								
June	107	243	- \$70,792,683	2,461,022	347,445	401,184	3,209,650	7 per cent
Dec.	90	179	+ 165,769,748	2,730,360	339,140	244,001	3,313,502	7
1921:								
June	77	142	+ 339,252,155	1,817,749	302,710	54,716	2,175,175	6
Dec.	83	140	+ 328,123,916	1,185,432	226,005	105,499	1,517,194	4 1/2
1922:								
June	94	150	+ 112,868,226	438,789	592,647	135,181	1,166,617	4
Dec.	116	156	+ 125,426,665	663,562	379,763	261,077	1,304,433	4
1923:								
June	122	153	+ 109,640,912	744,306	155,133	225,396	1,124,891	4 1/2
Dec.	110	151	+ 184,431,485	774,733	103,099	322,431	1,200,351	4 1/2
1924:								
June	94	145	+ 222,387,212	374,592	415,970	51,125	842,963	3 1/2
Dec.	117	157	+ 35,685,393	301,716	554,587	356,613	1,220,706	3
1925:								
June	110	157	- 150,269,955	437,621	345,707	264,589	1,060,667	3 1/2
Dec.	121	156	+ 15,903,337	690,896	358,412	367,864	1,428,732	3 1/2
1926:								
	123 (Mar.)	152 (Mar.)	77,016,625	537,003	370,754	234,409	1,155,739	4% Jan 7 3 1/2 Apr 13

1/ For the preceding six months; 1926, January to March.

2/ Reports daily average holdings (in thousands of dollars) for June and December 1920-1925 and for April, 1926.

3/ In effect June 30 and December 31, 1920-1925 and on April 30, 1926.

Form N

# Office Correspondence

FEDERAL RESERVE BOARD

*See BK*

Date May 7, 1926

To Mr. Hamlin

*155*  
*161*

Subject: \_\_\_\_\_

From Mr. Goldenweiser

*S.O.G.*

2-8405

In accordance with your request, I am sending herewith a brief statement about business and banking developments from 1920 to date.

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SUMMARY OF BUSINESS AND CREDIT DEVELOPMENTS SINCE 1920

In the early part of 1920 business expansion, which had been rapid during and immediately following the war, came to an end and there was clear evidence of an approaching turn in economic conditions. The volume of production began to decline early in the year; transportation facilities were badly congested and there was evidence of speculation and expansion along unsound lines. After May there was a ~~further~~ precipitous fall of prices, and while the total volume of credit continued to grow until the closing months of the year, there was a good deal of liquidation in some parts of the country. During the larger part of the year gold was leaving the country in considerable amounts, being withdrawn by South American and Oriental countries, and the reserves of the reserve banks were approaching the legal minimum. Discount rates were advanced at all of the banks and in many banks were as high as 7 per cent.

The following year, 1921, was a year of industrial and business recession and credit liquidation; prices continued to fall rapidly; there was a large importation of gold and the volume of reserve bank credit in use was declining both as the result of the return flow of currency no longer needed in circulation and the deposit of imported gold by member banks. The Federal reserve system throughout the year was gradually reducing discount rates. Toward the latter part of the year industrial activity began to show signs of revival. Early in 1922 this upturn became quite general throughout the different lines of business activity and trade; production continued to increase; prices began to recover from the low point reached in January, and

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credit liquidation also came to a close. There was a large volume of gold imports and ~~the~~ reserve bank credit in use declined for the year as a whole, although it showed considerable increase during the last half of the year. Discount rates continued downward and at the end of the year they were 4 1/2 per cent in most of the banks and 4 per cent at New York, Boston, and San Francisco.

The year 1923 began with evidences of ~~very~~ rapid business expansion; prices were advancing and the volume of commercial loans was also growing ~~very~~ considerably; there was some evidence of revival of speculative activity in commodity markets and in industry. The expansion, however, did not continue, and after the spring there was a definite check followed by recession both in the volume of business activity and in the movement of prices. Member bank and reserve bank credit remained fairly constant throughout the year, gold imports, which continued, were largely absorbed by the growing demand for money in circulation. Reserve bank policy during the year was expressed by an advance of the rates in New York, Boston, and San Francisco from 4 to 4 1/2 per cent early in the year and a sale of Government securities in large volume throughout the larger part of the year. This was the first year in which open market policy was definitely formulated and placed under the supervision of a committee of governors in cooperation with the Federal Reserve Board.

Industry and trade in 1924 continued to decline and in the summer of that year were at a relatively low level. Prices were also receding; there was a large volume of gold imports. With small demand for commercial credit

and an abundance of funds arising from gold imports, there was a concentration of bank funds in the financial centers, where they were used largely for investment and for loans on securities. This was the period during which bank credit increased very rapidly, and particularly the credit used in the purchase and carrying of securities. In view of the inactive condition of business and the low money rates, Federal reserve ~~system~~ <sup>Banks</sup> reduced ~~its~~ <sup>their</sup> rates all along the line by a series of steps, and at the end of the year the rate in New York ~~as~~ 3 per cent, and in the other banks varied between 3 1/2 and 4 per cent. During the year the Federal reserve banks also purchased a considerable volume of securities with the view to maintaining some contact with the market and having assets at their disposal that could be sold in case undesirable speculative activity should develop.

The course of business in 1925 was fairly parallel to that in 1924 with the difference that the fluctuations were not as wide and that the level of business at the beginning of the year was considerably higher than a year earlier. In the early part of the year there was a general recession, which was arrested by the middle of the year and the last part showed a revival of business. Bank credit continued to grow rapidly and also continued to be largely used for loans on securities. In contrast to the year before, however, the funds used were not so much funds of banks in the money markets as of the banks in the interior of the country. For the first time since 1920 there was a considerable volume of gold exports. After the spring of the year prices tended generally downward. Federal reserve policy during the year was expressed by the sale of \$250,000,000 of securities in the early months of the

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year and by advances in discount rates. The rate at the New York bank was raised from 3 to 3 1/2 per cent in February and at the Boston, Philadelphia, Cleveland, and San Francisco banks it was raised from 3 1/2 to 4 per cent in November. A further rate advance in New York was contemplated but was postponed until the turn of the year, chiefly because it was deemed inadvisable to increase the cost of credit to commerce and industry. at the time of the peak of the autumn demand for credit for marketing purposes. It was also considered that New York banks were not increasing their own loans or their borrowings at the reserve banks and that higher rates in the New York market would be likely to result in additional gold imports that would enable member banks to expand their loans without resorting to the reserve banks.

In the first quarter of 1926 trade and industry continued very active, but there was a continued recession in prices of commodities. Gold was moving into this country, chiefly from Canada and money rates were ease. The discount rate of the Federal Reserve Bank of New York, which had been raised to 4 per cent on January 8, was reduced to 3 1/2 per cent on April 15.