The Papers of Charles Hamlin (mss24661)

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Scrap Book - Volume 174
FRBoard Members

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 17, 1941

To The Files

Subject:

From Mr. Coe

MPC.

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 174 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 174

Page 53
Earnings & Expenses, F.R. Banks.

Page 118
Earnings and Expenses of F.R. Banks.

Page 119
Open Market Investment Committee Report.

Page 133
Memo to Governors' Conference from J. H. Case re Finance Companies Specializing in Bank Stock Investments.

Page 135
Report of the Committee on Bank and Public Relations to the Agents' Conference - November 1927.

Page 53

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

September 1927. Total earnings of the Federal reserve banks were about $200,000 more than in August though earnings were accrued for one day less in September. Earnings from discounted bills declined $85,000 but this decrease was more than offset by an increase of $203,000 in earnings from purchased bills and U. S. securities and of $80,000 in miscellaneous earnings.

Current expenses (exclusive of cost of currency) aggregated $2,096,000 as compared with $2,167,000 in the month preceding and $2,111,000 in September 1926.

Nine months ending September 30, 1927. During the nine months ending September 30 earnings totaled $31,029,000, as compared with $34,398,000 last year and $29,293,000 for the corresponding period in 1925.

Current expenses (exclusive of cost of Federal reserve currency) amounted to $19,280,000 during the nine-month period, an increase of $51,000 over the corresponding period last year.

After providing for all current expense and dividend requirements, the Federal reserve banks on September 30 had a balance of $4,588,000 available for depreciation allowances, surplus and franchise taxes, as compared with a balance of $8,468,000 at the end of September 1926.

The Federal Reserve Bank of Richmond, whose earnings have been less than expense and dividend requirements on each month-end since the first of the year, reports on September 30 a balance of $71,899 available for depreciation allowances, surplus, franchise tax, etc., after providing for all current expense and dividend requirements.

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MR. HAMLIN

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, SEPTEMBER 1927.

St. 5529

Federal Reserve Bank	Month of September 1927								Year 1927			
	Earnings				Current expenses		Current net earnings	Annual rate of current net earnings on average paid-in capital	Current net earnings to Sept. 30	Dividends accrued to Sept. 30	Balance available for depreciation allowances, surplus franchise tax, etc.	
	From discounted bills	From purchased bills and U.S. securities	From other sources	Total	Exclusive of cost of currency	Total					On Sept. 30	On Aug. 31
								Per cent				
Boston	$82,406	121,588	$24,700	$228,694	148,422	$164,376	$64,318	8.3	$583,958	$409,129	$174,829	$157,842
New York	408,702	507,744	93,790	1,010,236	498,403	540,580	469,656	14.5	2,537,050	1,727,629	809,421	536,977
Philadelphia	120,411	119,352	26,261	266,024	151,304	157,000	109,024	10.0	819,329	582,752	236,577	193,605
Cleveland	101,502	190,242	43,148	334,892	197,818	218,781	116,111	10.1	1,124,187	623,261	500,926	454,510
Richmond	77,988	124,304	21,518	223,810	105,392	113,096	110,714	21.6	350,362	278,463	71,899	*7,574
Atlanta	93,989	56,147	34,300	184,436	91,137	93,842	90,594	21.4	679,459	228,740	450,719	385,843
Chicago	98,586	273,088	79,366	451,040	290,188	316,021	135,019	9.5	1,523,618	768,136	755,482	707,033
St. Louis	81,451	108,647	18,807	208,905	109,872	111,117	97,788	22.5	677,871	237,882	439,989	368,654
Minneapolis	14,949	81,088	15,825	111,862	83,741	84,148	27,714	11.2	195,569	135,568	60,001	47,299
Kansas City	32,770	117,953	37,951	188,674	126,616	132,921	55,753	16.1	433,703	189,307	244,396	209,741
Dallas	34,472	106,997	17,808	159,277	103,198	111,853	47,424	13.5	297,359	192,183	105,176	79,129
San Francisco	111,663	162,293	34,814	308,770	189,596	200,657	108,113	14.2	1,146,098	407,309	738,789	676,858
TOTAL:												
Sept. 1927	1,258,889	1,969,443	448,288	3,676,620	2,095,667	2,244,392	1,432,228	13.3	10,368,563	5,780,359	4,588,204	3,809,917
Aug. 1927	1,343,543	1,766,420	367,882	3,477,845	2,166,765	2,320,342	1,157,503	10.5				
Sept. 1926	2,104,984	1,675,743	150,257	3,930,984	2,111,405	2,196,113	1,734,871	17.1	13,930,938	5,462,566	8,468,372	7,352,298

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
OCTOBER 11, 1927.

*Deficit.

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

October 1927. Total earnings of the Federal reserve banks were $15,000 less than in September though earnings were accrued for one day more in October. Earnings from purchased bills increased $174,000, from U. S. securities $65,000, and from discounted bills $17,000, but these increases were more than offset by a decrease of $271,000 in miscellaneous earnings. The decrease in miscellaneous earnings was due to losses on U. S. securities sold and to a decrease in earnings on transactions with foreign banks.

Current expenses (exclusive of cost of Federal reserve currency) aggregated $2,156,000 as compared with $2,096,000 in the month preceding and $2,133,000 in October 1926.

Ten months ending October 31, 1927. During the ten months ending October 31 earnings totaled $34,690,000, as compared with $38,653,000 last year and $33,223,000 for the corresponding period in 1925.

Current expenses (exclusive of cost of Federal reserve currency) amounted to $21,436,000 during the ten-month period, an increase of about $75,000 over the corresponding period last year.

After providing for all current expense and dividend requirements, the Federal reserve banks on October 31 had a balance of $5,275,000 available for depreciation allowances, surplus and franchise taxes, as compared with a balance of $9,802,000 at the end of October 1926.

(St. 5569-a)

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EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, OCTOBER 1927.

St. 5569

Federal Reserve Bank	Month of October 1927									10 Months ending October 31, 1927		
	Earnings from -					Current expenses		Current net earnings				
	Dis-counted bills	Pur-chased bills	U. S. secu-rities	Other sources	Total	Exclusive of cost of currency	Total	Amount	Ratio to paid-in capital	Current net earnings	Dividends accrued	Balance for reserves, surplus, franchise tax, etc.
									Per cent			
Boston	$99,710	$80,342	$76,634	$6,598	$263,284	$151,200	$167,515	$95,769	11.9	$679,727	$456,347	$223,380
New York	380,152	279,404	291,873	22,935	974,364	510,140	546,696	427,668	12.7	2,964,718	1,926,294	1,038,424
Philadelphia	117,023	34,584	105,368	6,867	263,842	156,217	171,123	92,719	8.2	912,048	648,957	263,091
Cleveland	131,516	47,529	160,794	16,234	356,073	202,098	223,874	132,199	11.2	1,256,386	692,971	563,415
Richmond	87,276	98,554	58,678	7,753	252,261	104,500	118,570	133,691	25.2	484,054	309,720	174,334
Atlanta	78,466	7,995	37,505	15,959	139,925	101,085	108,857	31,068	7.1	710,527	254,443	456,084
Chicago	108,249	77,318	221,074	39,463	446,104	301,190	323,806	122,298	8.3	1,645,916	854,681	791,235
St. Louis	64,301	11,025	105,350	4,041	184,717	107,541	115,231	69,486	15.4	747,357	264,436	482,921
Minneapolis	8,782	30,652	70,435	11,588	121,457	83,932	84,407	37,050	14.5	232,619	150,611	82,008
Kansas City	47,785	27,465	104,077	31,050	210,377	148,663	154,102	56,275	15.7	489,978	210,414	279,564
Dallas	21,300	37,120	90,914	5,616	154,950	103,522	110,979	43,971	12.1	341,329	213,574	127,755
San Francisco	131,507	25,020	128,859	8,645	294,031	186,097	193,904	100,127	12.6	1,246,225	453,924	792,301
TOTAL:												
Oct. 1927	1,276,067	757,008	1,451,561	176,749	3,661,385	2,156,185	2,319,064	1,342,321	12.0	11,710,884	6,436,372	5,274,512
Sept. 1927	1,258,889	583,221	1,386,222	448,288	3,676,620	2,095,687	2,244,392	1,432,228	13.3			
Oct. 1926	2,254,394	912,549	942,261	145,670	4,254,874	2,132,813	2,304,265	1,950,609	18.5	15,881,547	6,079,059	9,802,488

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
NOVEMBER 12, 1927.
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Open Mkt Invest. Comm

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Preliminary Memorandum
for the
Open Market Investment Committee
October 18, 1927.

In accordance with the general policy forecast by discussions at the governors' conference in May and at the meeting of the Open Market Investment Committee on July 27, all of the Federal Reserve Banks have since that meeting reduced their discount rates from 4 per cent to 3 1/2 per cent. The timing of these changes was as follows:

July	29	Kansas City
Aug.	4	St. Louis
"	5	Boston, New York
"	6	Cleveland
"	12	Dallas
"	13	Atlanta
"	16	Richmond
Sept.	7	Chicago
"	8	Philadelphia
"	10	San Francisco
"	13	Minneapolis

In order to make the change of discount rate effective in New York it was found necessary to purchase 50 million dollars of Government securities for account of the System, as previously authorized. The reduction of the rate in New York was followed by large transfers of funds to other districts, principally to the west. Between August 3 and September 7 (when the Chicago bank reduced its rate) the gold reserves of the New York bank declined 109 million dollars, most of the loss going to the Reserve Banks which still maintained a 4 per cent rate. Over the whole period from July 20 to October 12 the New York Bank lost 181 millions of gold, including transfers to other districts as well as gold exports and withdrawals of gold currency for circulation. As a consequence the

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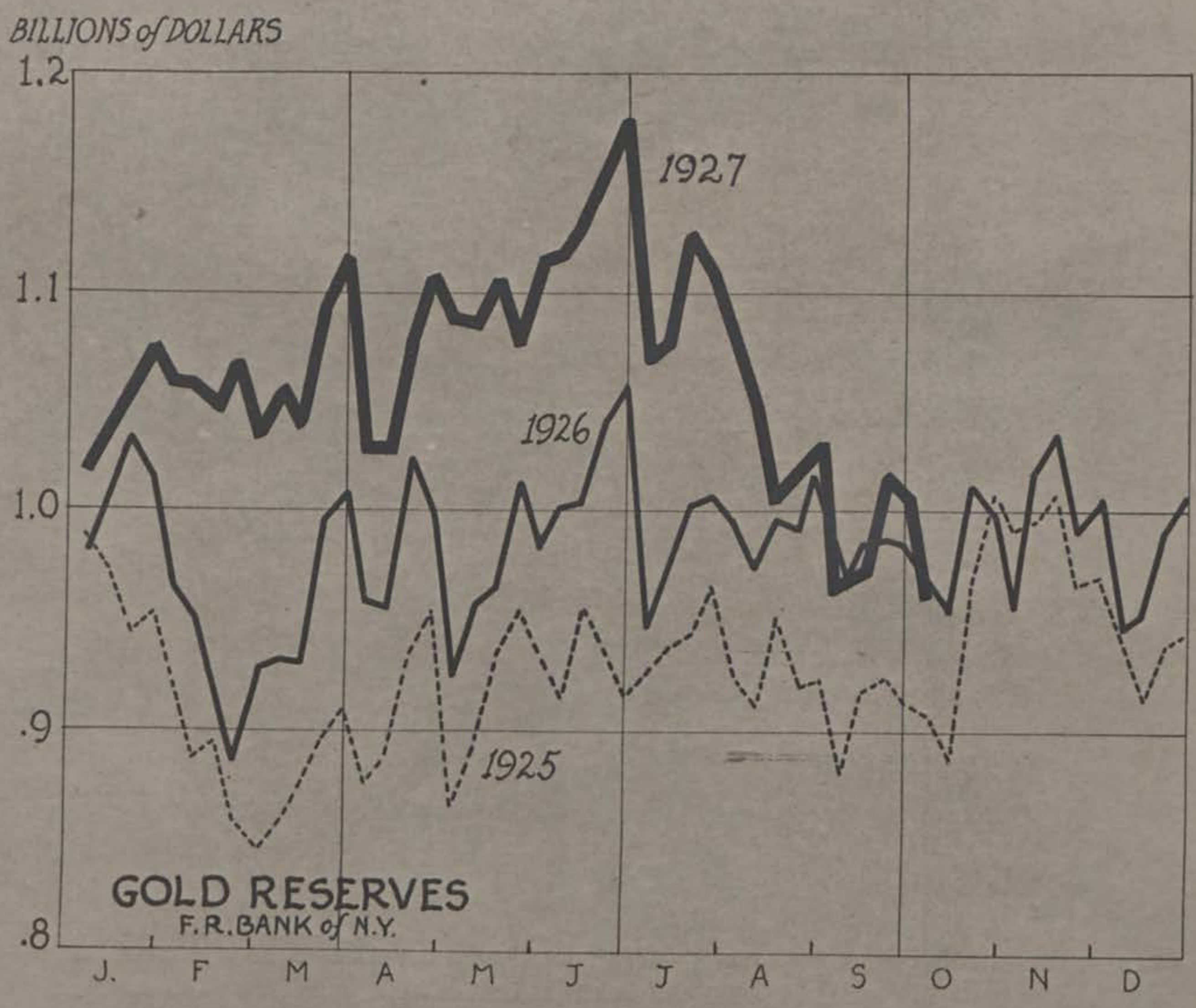


BILLIONS of DOLLARS
1.2
1.1
1.0
.9
.8
1927
1926
1925
GOLD RESERVES
F.R. BANK of N.Y.
J. F M A M J J A S O N D

borrowing of New York City member banks increased about 75 million dollars and, with prospects of even larger borrowings, it was necessary to purchase in August the 50 million of securities. Otherwise money rates would have experienced a sharp advance which would have defeated the purposes of the policies adopted.

In this same period it has been possible to liquidate all of the special sterling account with the Bank of England, at a profit of $163,000. In order to offset the loss of funds to the New York money market resulting from these sales a corresponding amount of securities has been purchased, a reversal of the operation which took place in the Spring when purchases of gold abroad were offset by sales of securities. The transactions in the account since early in the year, exclusive of temporary or minor adjustments, are shown in the following table:

Major Transactions For
System Special Investment Account

Approximate amount in account January to May 1.	$201,000,000
Sale of securities, May 1 to May 9, to offset purchase of gold (mostly gold held abroad).	65,000,000
Balance in account May 9. . . .	$136,000,000
Purchases to offset gold earmarked in May and June.	100,000,000
Purchases during June and July under authorization of Committee meeting, held week of May 9.	29,000,000 *
Balance in account July 18. . .	$265,000,000
Purchases in August under authorization of Open Market Committee meeting of July 27.	50,000,000
Balance in account.	$315,000,000
Purchases in August, September and October to offset sales of sterling.	60,000,000
Balance in account October 18. .	$375,000,000

* out of an authorization of $100,000,000.

It will be observed that as a net result of the year's operations to date the Special Investment Account has been increased $174,000,000. Of this $95,000,000 represents offsets to market losses through earmarkings, etc., and $79,000,000 represents purchases made in keeping with policy aims.

A further result of the movement of funds from New York to other districts has been that member banks in districts other than New York have been able to meet the seasonal increase in credit requirements without any increase in their borrowings at their Reserve Banks, whereas banks in New York have increased their borrowings. The figures are as follows:

Discounts and Advances

(In Millions of Dollars)

(Monthly Averages)

	New York District	Other Districts	Total System
July, 1926	166	383	549
Sept., 1926	182	460	642
July, 1927	123	331	454
Sept., 1927	142	280	422

The decrease in total member bank borrowings as compared with a year ago arises partly from a lessened demand for Federal Reserve credit due to smaller currency requirements and gold imports and partly from the increase in the System's holdings of securities. The average figures for September for total bills and securities are as follows:

	Sept. 1926	Sept. 1927
Bills discounted	$ 641,797	$ 422,192
Bills bought	263,992	215,926
U. S. Securities	315,747	500,637
Total bills and securities	1,225,236	1,139,342

Under these conditions money rates have become relatively stable at levels about 1/4 to 1/2 of 1 per cent lower than at the middle of July and substantially lower than a year ago. The changes in rates are shown in the following table:

Money Rates at New York

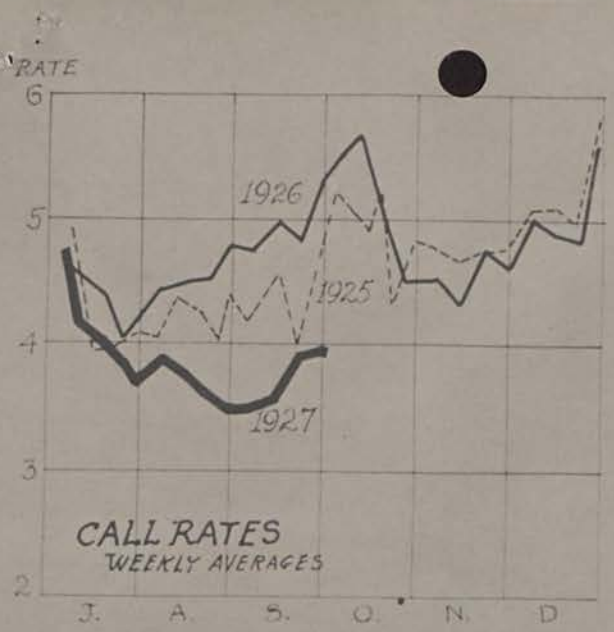
	Sept. 30 1926	July 15 1927	Oct. 17 1927
Call money	*5-5 1/2	*4	*4
Time money - 90 day	5 1/8	4 1/2	4 3/8
Prime commercial paper	4 1/2-4 3/4	4 1/4	4
Bills - 90 day unendorsed	3 7/8	3 5/8	3 1/4
Treasury certificates and notes maturing December 15	3.54	3.03	2.89
" March 15	3.56	3.24	3.08
Federal Reserve Bank of New York rediscount rate	4	4	3 1/2
Federal Reserve Bank of New York buying rate for 90 day bills	3 3/4	3 3/4	3 1/4

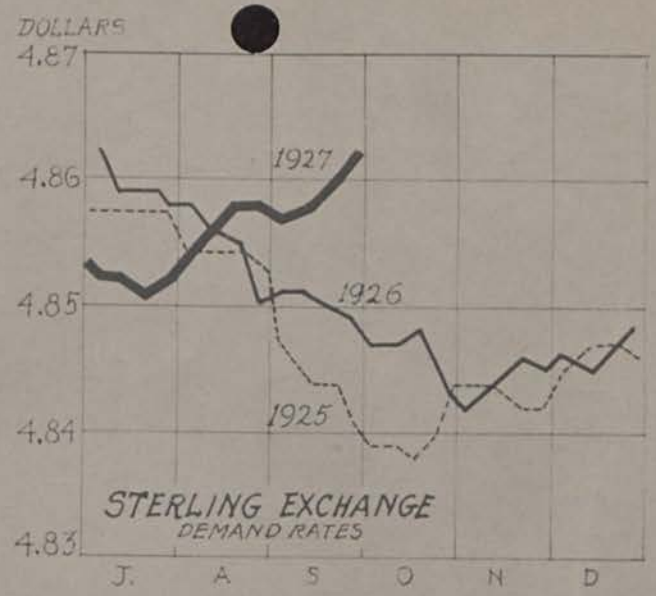
*Prevailing rate for preceding week

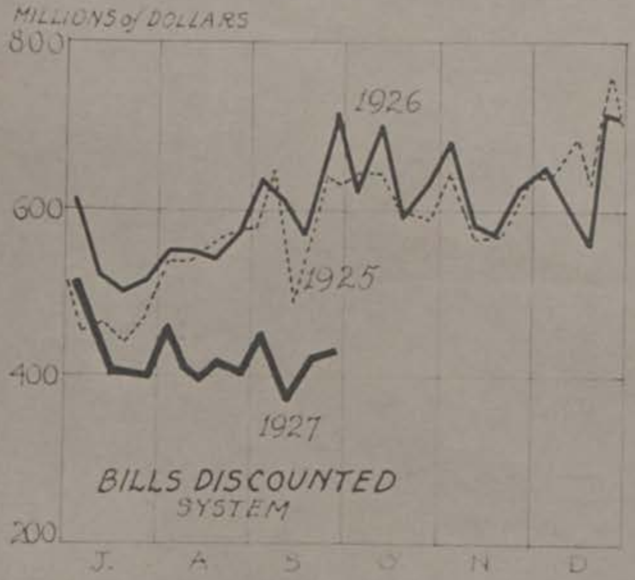
Consequences of Lower Rates

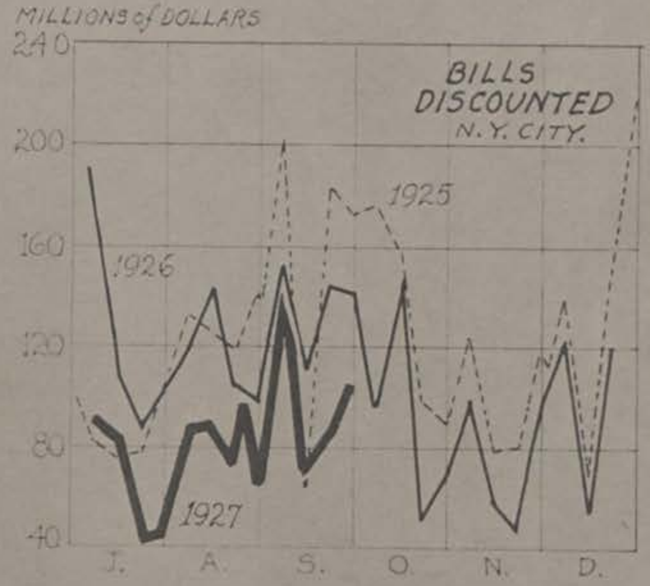
Aside from the domestic movement of funds from New York to other districts, ~~which appears still to persist~~, the following changes, related in some measure to the lower rate level, have taken place in the money market situation.

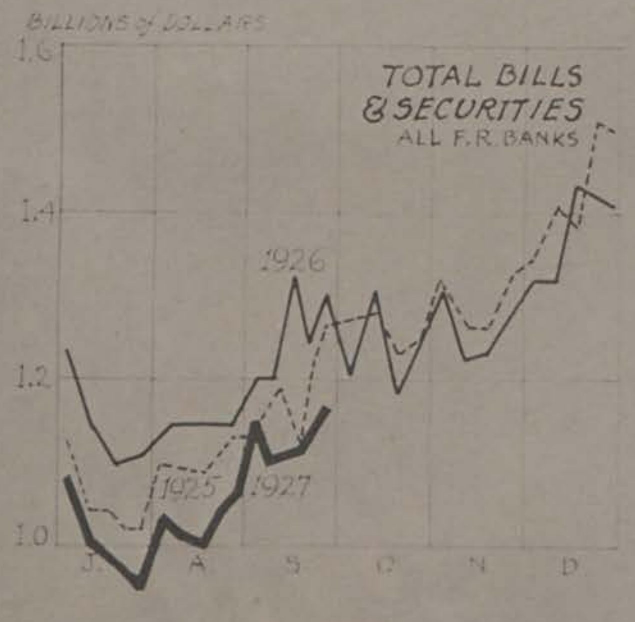
1. Higher Sterling Exchange. Whereas a year ago sterling exchange moved steadily downward from early July until the end of October, and such a movement had begun early in July this year, the lower level of interest rates prevailing has been an influence toward stronger sterling exchange, and the demand rate has moved from a little above $4.85 the middle of July to nearly $4.86 3/4 recently, and the cable rate from $4.85 1/2 to $4.87 1/8, - this notwithstanding sales of over 12 million pounds of sterling by the Reserve Banks. This strength in the exchange reflects the tendency for funds to move from New York to London, and some tendency for short and long term financing to be shifted from London to New York. The rates London banks are now paying for deposits are about 4 1/4 to 4 1/2 per cent, and are higher rates than those at which funds can be employed at short notice in the New York money market. Acceptance credits are now cheaper to obtain in New York than they were and

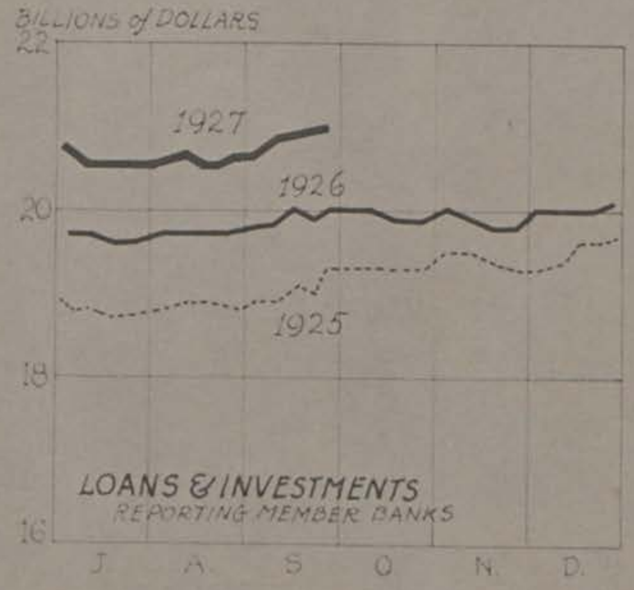

RATE
6
5
4
3
2
1926
1925
1927
CALL RATES
WEEKLY AVERAGES
J. A. S. O. N. D


DOLLARS
4.87
4.86
4.85
4.84
4.83
1927
1926
1925
STERLING EXCHANGE
DEMAND RATES
J. A. S. O. N. D.


MILLIONS of DOLLARS
800
600
400
200
1926
1925
1927
BILLS DISCOUNTED
SYSTEM
J. A. S. O. N. D


MILLIONS of DOLLARS
240
200
160
120
80
40
BILLS
DISCOUNTED
N.Y. CITY.
1925
1926
1927
J. A. S. O. N. D.


BILLIONS of DOLLARS
1.6
1.4
1.2
1.0
TOTAL BILLS
& SECURITIES
ALL F.R. BANKS
1926
1925
1927
J. A. S. O. N. D


BILLIONS of DOLLARS
22
20
18
16
1927
1926
1925
LOANS & INVESTMENTS
REPORTING MEMBER BANKS
J. A. S. O. N. D.

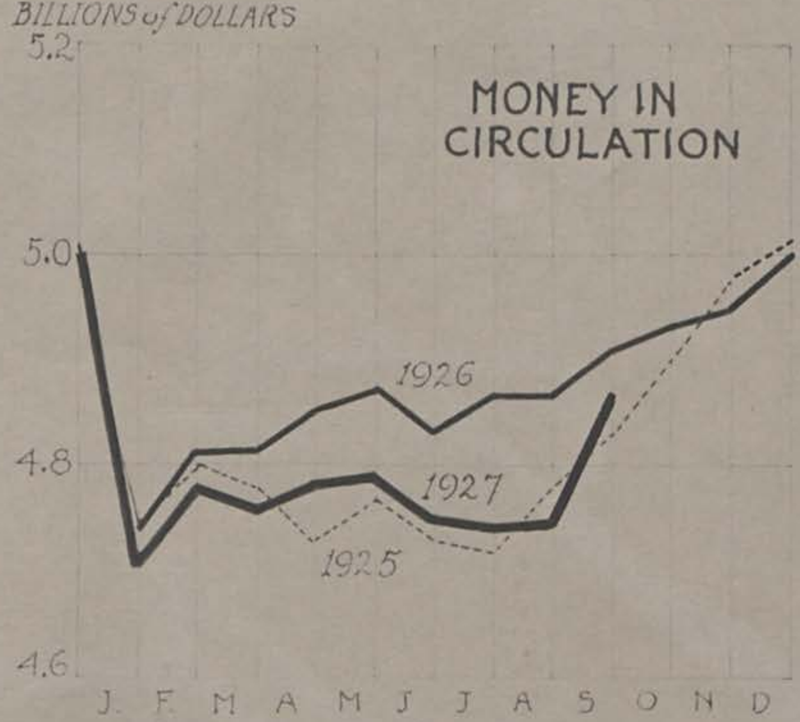
the dollar volume of bills outstanding in this market is as large as at any time since 1920. Sterling long bills are also bought here by our banks and "carried" in London after acceptance instead of being discounted.

2. Net Gold Exports in September. In every month this year up to September there had been a net import of gold (if we exclude earmarkings). But in September there has at last been a net export movement of gold and gold imports for the ~~movement~~ moment are arrested. A net outgo of about 13 million dollars was largely the result of a shipment of 23 million to the Argentine, more than offsetting imports of about 10 million from Australia. While the Argentine shipment was in the nature of a special transaction, the relation of exchange rates made it cheaper to purchase this gold in New York than in London.

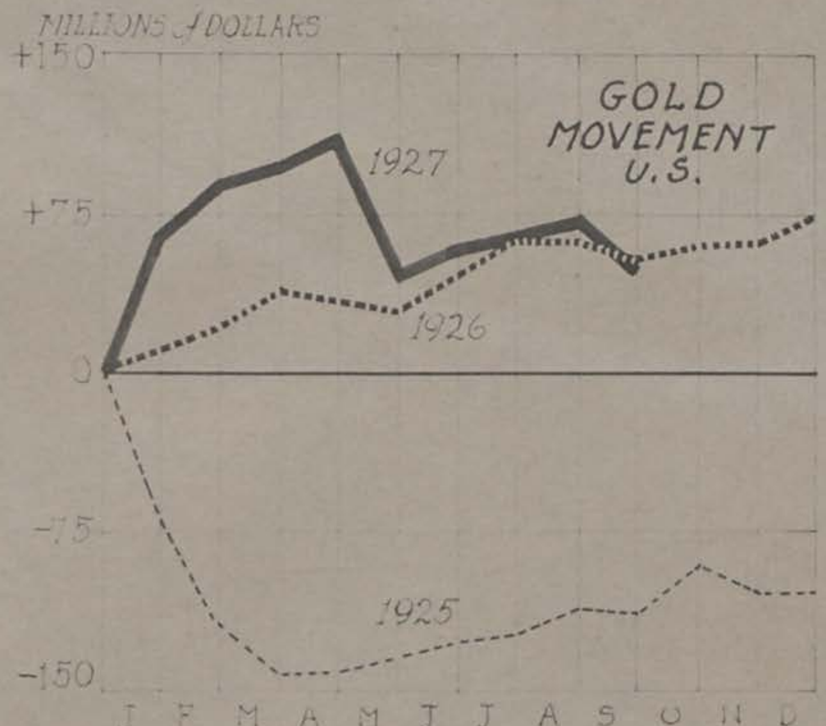
So far this year all movements of gold (exports, imports, and earmarking operations) have resulted in a net gain to this country of about 49 million dollars. This is contrary to general views, which are based on reports that omit earmarked gold held by us. In this connection it is interesting to note that in the past three years, 1925, 1926, and 1927, during which there has been considerable discussion of our sterilizing gold, this country has gained as a net result of gold operations only about 18 million dollars of gold, which is less than seasonal movements of single years at times prior to the war.

3. Growth in Speculation. A further and less favorable result of easier money, and one which was anticipated, has been some stimulation of stock exchange speculation. There has been a growth of 336 million dollars since the middle of July in loans to brokers and dealers in New York, accompanying an irregular advance in stock prices.

There is no means of knowing beyond question how far this recent rise in stock prices represents excessive speculation and how far it represents



Amount of Currency in Circulation at First of each Month, U.S. Treasury Department Reports.



Net Gain or Loss of Gold through Exports, Imports, and Earmarking.

a gradual readjustment of values to increased industrial efficiency, larger profits, higher commodity prices, and a lower basic interest rate level than for some years past. It is clear from a study of such relationships as those of stock yields with bond yields and with money rates, that the current level of stock market prices is less abnormal than a casual inspection of prices alone would suggest. The investment trust and the growing popularity of common stocks as investments are factors which may also be changing somewhat the old price and yield relationships.

4. Growth in Volume of Credit. There has been a considerable growth in the volume of bank credit, more rapid in fact than took place in either 1925 or 1926. The figures of report~~ed~~ing member banks in principal cities for this year to date, in comparison with the three years previous, are as follows:

Increase January 1 to October 1 (In Millions)

	1924	1925	1926	1927
Total loans and investments	1,571	611	404	911
Commercial loans	275	153	301	23
Loans on stocks and bonds	440	573	87	333
Investments	856	115	190	554 *

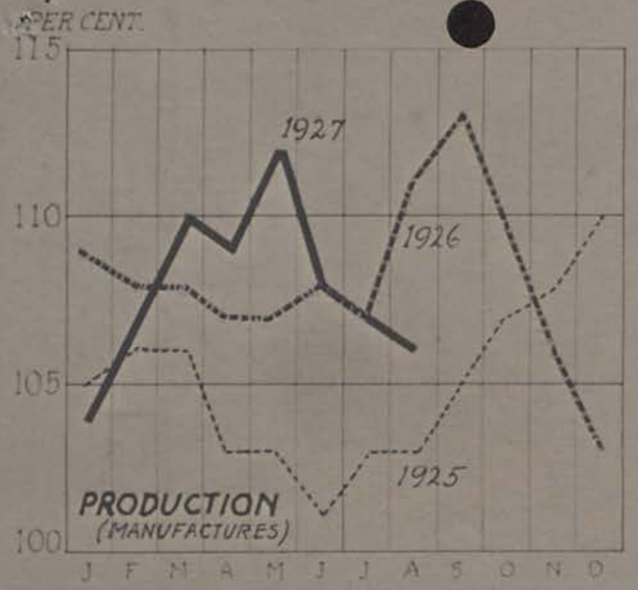
* Includes 300 increase in governments, with biggest change at March tax period.

The increases in these items between the middle of July and the first of October have been as follows:

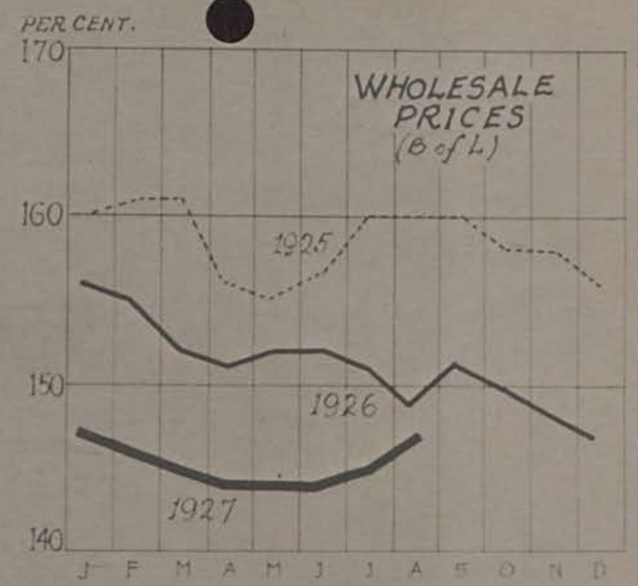
Increase Middle of July to first week of October (In Millions)

	1924	1925	1926	1927
Total loans and investments	1,029	495	359	634
Commercial loans	301	360	298	271
Loans on stocks and bonds	209	171	107	321
Investments	519	36	46	42

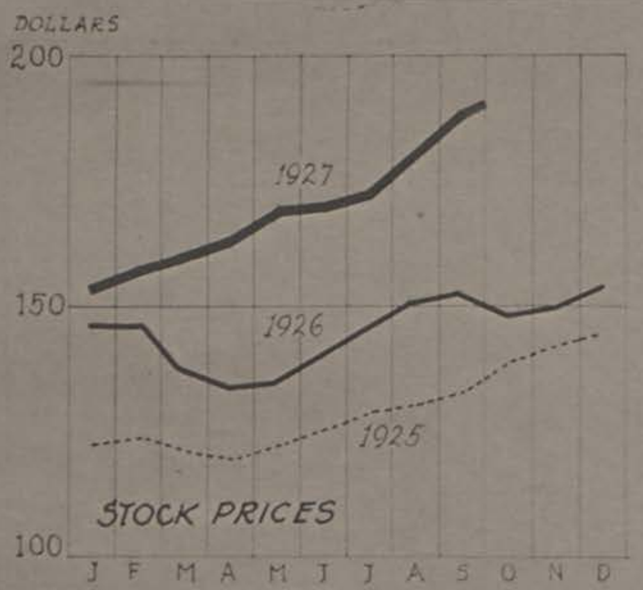
5. <u>Greater Firmness in Commodity Prices</u>. An index of prices of basic commodities, computed by the New York Reserve Bank, has been tending generally upward since early in the spring, due almost wholly to increases in agricultural prices, which may be ascribed largely to particular crop conditions but partly to success in marketing surplus production abroad. The upward movement has been accelerated, however, in the past two months and the larger index of the Department of Labor, made up from quotations for over 500 different commodities, also moved upward in July and August. This index is still, however, a number of points lower than it was a year ago.



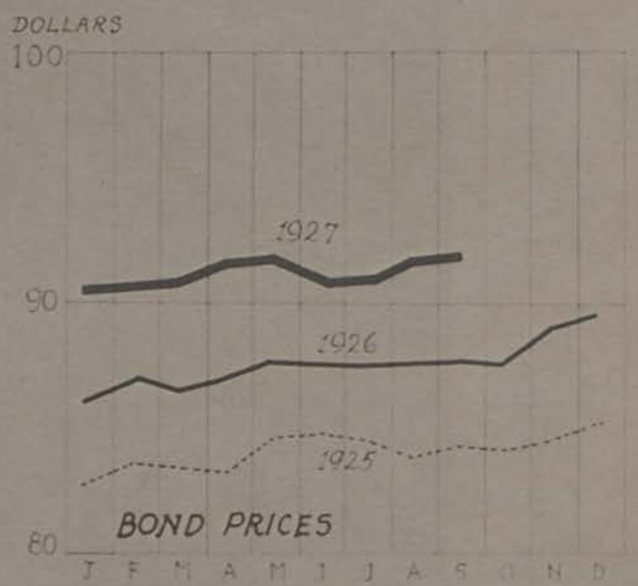
Federal Reserve Board's Index of Production of Manufacturers.



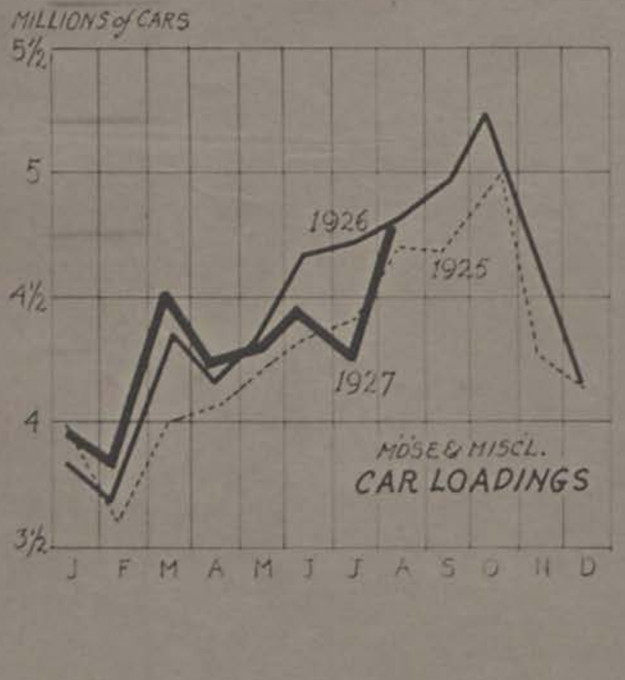
Bureau of Labor Statistics Index of Wholesale Prices.

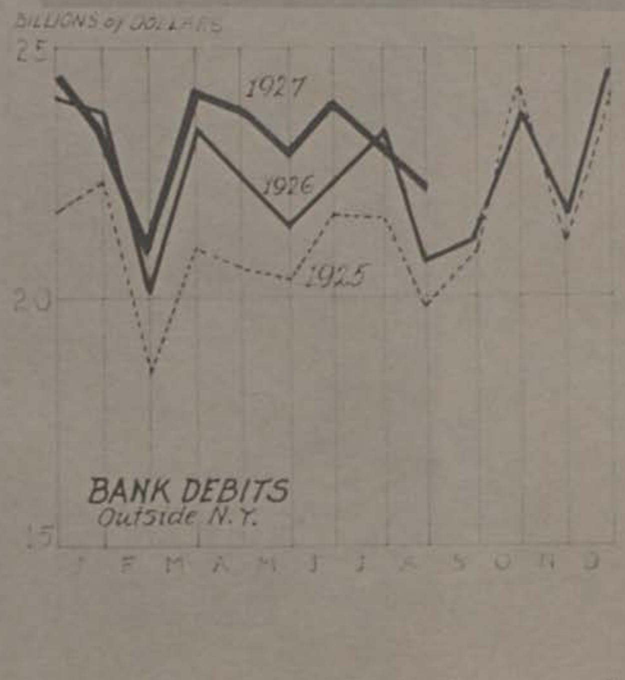


Standard Statistics Company Index of Prices of 228 Stocks.



New York Times Price Average of 40 Corporation Bonds.





General Condition of Business

There has been no marked change in the general business outlook. The general volume of manufacturing production is somewhat lower than a year ago and lower than it was early this year, a change which is reflected in a smaller currency demand than last year. The agricultural situation, however, has improved and there are prospects for larger crops than had been anticipated early in the spring, and an increase in the purchasing power of the farm population. The general business outlook is, however, for a continued fairly good volume of business activity during the balance of the year, without either a recession or a boom. Many authorities agree that increasing domestic competition is affecting profits adversely.

Developments Abroad

The outstanding new developments in European money markets are the increases of the discount rates by the Reichsbank from 6 to 7 per cent, and its Lombard rate from 7 to 8 per cent and but recently of Holland from 3 1/2 to 4 1/2. Aside from these changes the rates of central banks abroad have been at the same level as in July. The explanation of the change of rate by the Reichsbank is its reduced reserve assets, and in general it illustrates the narrowness of margin within which the banks of issue of Europe are operating and probably reflects some strain in meeting payments due to the U. S. The reserves of most European banks of issue are not adequate generally to undergo any considerable or continued strain without the necessity for increases in rates. The latest moves emphasize the importance of this country's maintaining, if possible, a rate relationship with Europe, such that at least the world's new gold output available for monetary purposes may not be diverted to this country but may flow to those centers where the reserves are most in need of reinforcement.

The Sterling Position

While our rate reductions, together with a recent increase in foreign loans placed in this market, a movement by American banks to accumulate balances in London, and probably some covering of short positions in sterling have led to the sharp advance in sterling rates commented upon earlier, there remains some question as to the position of sterling for the balance of this year. The movement of cotton, while smaller than last year, is at much higher prices and the delayed movement has probably not reduced total dollar requirements. The larger amount of bills being drawn in dollars than last year, simply defers the demand abroad for dollars.

Some of these developments simply defer but do not finally effect dollar payments. It is hoped that the ultimate demand for dollars may go over until the period of liquidation and ease of rates immediately after January 1st. In the meantime, however, the committee should be prepared to intervene, if necessary, and again accumulate a London portfolio at the London gold export point, or buy gold in London when offered for export to New York. In case of such purchases the committee should consider whether offsetting sales of securities should not be made in New York just as they were in the spring when gold was acquired abroad.

The Guilder Position

The holiday delayed cable exchanges which might have enabled us otherwise to agree with the Nederlandsche Bank upon a plan to avoid their rate increase or limit it to 1/2 per cent, instead of 1 per cent. This situation may recur and should be considered by the committee.

As to Offsetting Gold Movements or the Equivalent

The experiences of this year have provided a demonstration of the effectiveness of the policy of offsetting gains and losses of gold through import, export, or earmarking by purchases or sales of securities. Purchases or sales of gold abroad or of exchange, which have just the same effect on the market as gold movements, have been similarly offset, as indicated by the table on page 2. That table indicates, that whereas the open market account increased from 136 million in May to 375 million in October, only 79 million of the purchases were of a nature to affect the credit situation; the balance represented offsets.

The effect of such offsetting purchases or sales has been to prevent disturbance to the credit situation from artificial causes. If purchases or sales of this sort are not made promptly, not only will money rates be affected, sometimes quite sharply, but the borrowings from the reserve banks will become readjusted automatically at times when not desirable. In the case of imports of gold, unless repayments of loans are at once made to the reserve banks, loan expansion occurs at once in the market.

Failure to "offset" a gold import or export (or equivalent earmark transaction) has the same result as a purchase or a sale of securities when no gold movement occurs. The same situation arises whenever large transactions for foreign banks alter the reserve position, and occasionally when changes occur in Treasury balances with the Reserve Banks.

It should be understood that these necessary adjustments will be made from time to time, within reasonable limits and for a round amount, the members of the committee being consulted by telephone. At times action must be taken at once, - for example, when a foreign bank desires to sell securities and earmark gold, or when our own foreign balances are being liquidated as recently.

Sales of Sequrities in January

In addition to any sales of securities which may be necessary to offset any purchases of foreign exchange, or gold abroad, it will be necessary to consider whether sales should be made in January. In case borrowings at the New York Reserve Bank, and possibly other Reserve Banks, are not sufficient to absorb the January return flow of currency and Reserve Bank credit, the committee should consider sales of securities.

15

Future Program

As to specific cases

The committee should consider the following -

1. The Reserve Banks being prepared to repeat the operation of buying gold or balances abroad, if necessary, to prevent gold movement from London or some other foreign center.
2. A continuance of the general understanding that the committee will undertake to offset by purchases and sales of securities any such major gold, or equivalent, operations as have been offset this year. This would include the offsetting of purchases or sales of sterling or other foreign currencies.
3. The desirability of sales of securities in January, if it appears necessary, to take up slack in the money market.

As to general policy.

A review of the events of the past two months makes it clear that the policies agreed upon in July have so far been successful, more so perhaps than could have been anticipated. Concerning the future, the principal questions are -

1. How long will the firmness of sterling and other European exchanges be maintained, even with present rate relationships, when the full seasonal strain for making American purchases appears?

2. Will money rates in this country rise later in the year with Christmas demands for funds, so as to disturb the international rate relationships?

3. Is there likely to be increasing difficulty for Europe in meeting payments due in the United States?

4. Is there likelihood of speculation in stocks or commodities, using so large an amount of credit as to constitute a danger?

5. In view of these possibilities what flexibility in operations should be given the Open Market Committee?

CONFIDENTIAL (4 - October 29, 1927)

Supplementary Note on Gold Earmarking

Since the preceding pages were written we have received instructions from a foreign correspondent to earmark 50 million dollars of gold for their account. This earmarking operation has precisely the same effect in withdrawing funds from the money market as the export of 50 million dollars of gold, or the sale of 50 million dollars of securities by the Reserve System. In order that this operation may not disturb the money market and defeat the policy we have been pursuing, the committee is undertaking to offset these earmarkings by a purchase of 50 million dollars of securities, so that the net result of the operation will be to leave the money market unaffected.

This transaction illustrates precisely what occurs when gold is earmarked. Under the instructions which have been received, 30 million dollars of the earmarked gold will be paid for by applying the proceeds of bankers acceptances now held for the account of this correspondent, which mature between now and November 11. The remaining 20 million will be paid for by funds to be deposited with the New York Reserve Bank by a number of the New York City banks, which hold balances for the account of this correspondent.

The procedure which we have agreed upon for the earmarking of gold results in our setting aside gold in the amounts and on the dates indicated below:

GOLD TO BE EARMARKED FOR FOREIGN CORRESPONDENT

Date		Proceeds Maturing Bills	To be received From New York Banks	Total
October	25	$10,000,000	$ 4,000,000	$14,000,000
	26		2,000,000	2,000,000
	27		2,000,000	2,000,000
	28		2,000,000	2,000,000
	31	5,000,000	2,000,000	7,000,000
November	1		2,000,000	2,000,000
	2	5,000,000	2,000,000	7,000,000
	3		2,000,000	2,000,000
	4		2,000,000	2,000,000
	7	5,000,000		5,000,000
	11	5,000,000		5,000,000
		$30,000,000	$20,000,000	$50,000,000

Should any of the payments from the New York banks be made in Clearing House funds, it would result in delaying one day the earmarking of gold.

It will be seen that, as the bills held for this correspondent mature, the market pays to the Federal Reserve Bank the amounts due, and that as these sums are applied to the purchase of gold and are not reinvested in the market they will constitute a loss to the market, reduce the reserves of the New York City banks, and (in the absence of offsetting operations) force those banks to increase their borrowings at the Federal Reserve Banks. Payments to the Reserve Bank by New York City banks have a precisely similar result. In order to maintain the present status quo it is necessary, therefore, to put 50 million dollars into the market to replace the 50 million dollars withdrawn by this earmarking operation. Securities are being purchased a little more slowly than gold is being earmarked and thus a daily test is made of market conditions.

At present the New York City banks owe the Federal Reserve Bank of New York about 90 million dollars, and this amount of borrowing will normally be increased somewhat as Christmas approaches. Any large extended increase in this borrowing would be followed inevitably by firmer money rates, and would imperil the policy which the Reserve System has been following.

One other phase of this earmarking operation is worthy of consideration. Exports and imports of gold from and into this country since the beginning of this year resulted in a net import of about 125 million dollars. If, however, earmarking operations are taken into account the net gain to the market through imports will, after the completion of this transaction, have been entirely offset by losses through the earmarking of gold. Thus the actual facts as to gold movements are quite contrary to the general belief based upon the published figures for gold exports and imports.

The same thing is true if we go back a few years. Since the autumn of 1924 the figures for gold imports and exports indicate a net movement to this country of about 100 million dollars, and it is the common impression that in the past three years we have been absorbing and sterilizing the world's gold. When earmarkings are taken into consideration, however, the past three years (including this current transaction) show a net loss of $50,000,000 of gold rather than a net gain.

In view of the important influence of gold movements upon money conditions, and the somewhat misleading character of statements which are now made public, it is believed that we should consider some weekly statement as to gold held under earmark. It is true that figures given out once a month by the Department of Commerce for the stock of gold in the United States do make allowance for earmarking, but these figures are published only once a month and some time after the event. The publishing of weekly figures for gold earmarkings would correct possible erroneous impressions and aid in a general public understanding of Federal Reserve policies.

CONFIDENTIAL

To Governor Strong October 18, 1927

From W. R. Burgess Memorandum on the Stock Market

The concern of the Federal Reserve System as to the stock market has to do with its use of credit. There are two principal ways in which the amount of credit employed by the market can be judged.

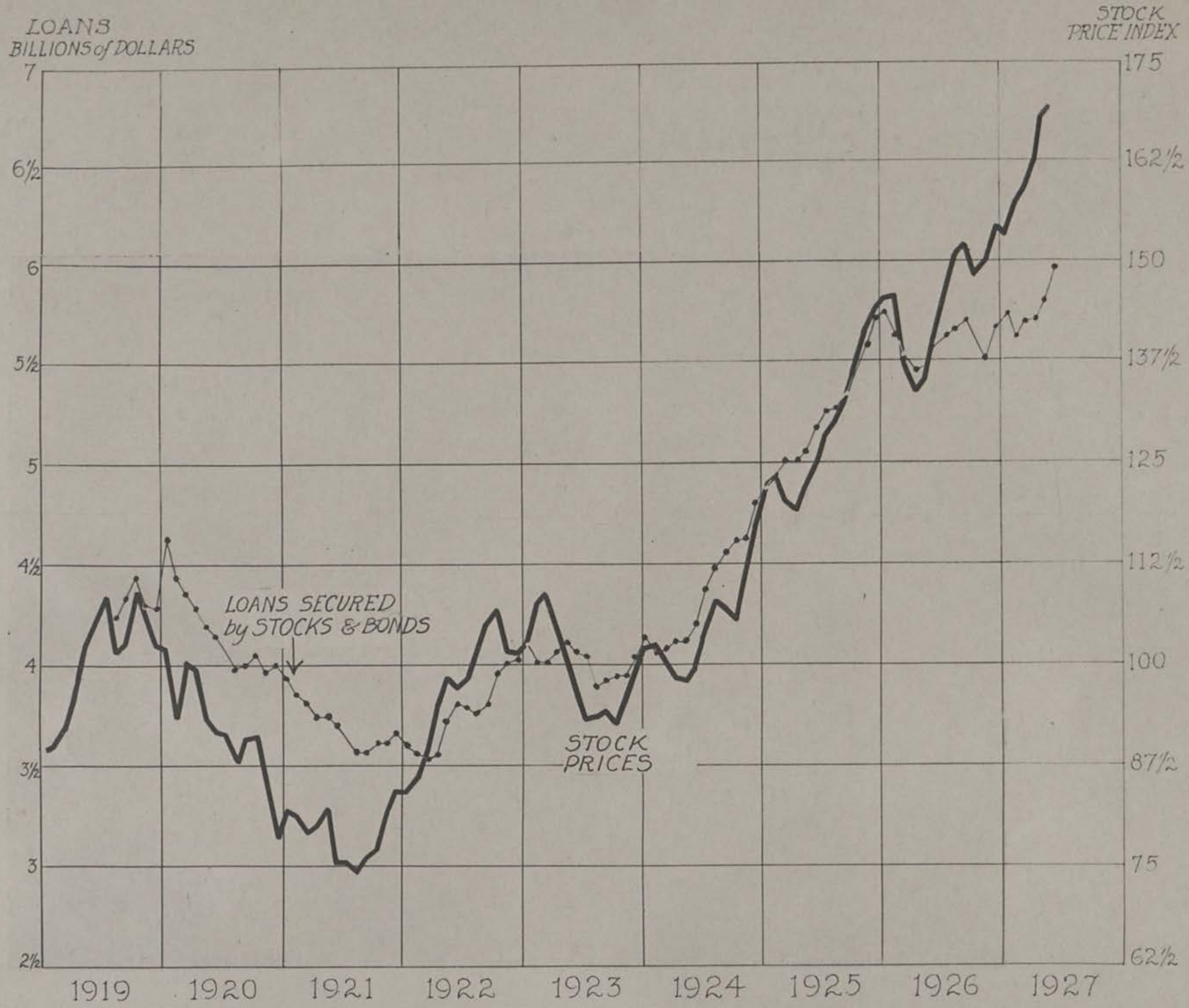
First. A comparison of changes in such use of credit with such related factors as the prices of securities, the volume of trading, and changes in other forms of credit.

Second. The soundness, i.e. permanence, of current market values against which the credit is advanced.

1. Use of Credit in Security Markets

Security Loans and Stock Prices

The following chart shows the changes in recent years in loans on stocks and bonds of the reporting member banks in principal cities, in comparison with prices of common stocks. In general the two lines move closely together, but in the past year security loans have increased less rapidly than stock prices. The spread between these two lines would appear to indicate some tendency toward greater conservatism in the use of credit in security market operations, which may be due to such factors as larger margins or a larger proportion of investment buying for cash.


LOANS
BILLIONS of DOLLARS
STOCK
PRICE INDEX
7
6½
6
5½
5
4½
4
3½
3
2½
175
162½
150
137½
125
112½
100
87½
75
62½
LOANS SECURED
by STOCKS & BONDS
STOCK
PRICES
1919
1920
1921
1922
1923
1924
1925
1926
1927

Security Loans and Volume of Security Operations

A further test of the present volume of loans on securities may be found in the concurrence of the movement of security loans, the volume of trading, and the volume of new financing. This comparison is made on the following diagram and indicates that increases in extensions of credit have been no greater than the increases in the volume of security operations.

Security Loans in Relation to Total Bank Credit

The second chart on the page shows the ratio of bank loans on securities to the total amount of loans and investments of the reporting member banks. It indicates that, while in 1925 the ratio of security loans to total bank credit increased from 25 to 29 per cent, since that date this ratio has fluctuated within narrow limits.

The proportion of brokers loans to total loans on stocks and bonds has been rising since early this year but remains slightly lower than in January and February 1926, though higher than at any other time in recent months. These ratios are shown in the following table.

Percentage of Brokers Loans to Loans on Stocks and Bonds of all Reporting Member Banks of System

Last Reporting Date	1926	1927
January	56.2	49.9
February	57.3	50.7
March	47.6	50.2
April	46.6	51.1
May	45.9	52.1
June	46.0	53.4
July	47.8	53.6
August	49.7	54.4
September	50.2	
October	48.2	
November	48.6	
December	48.8	

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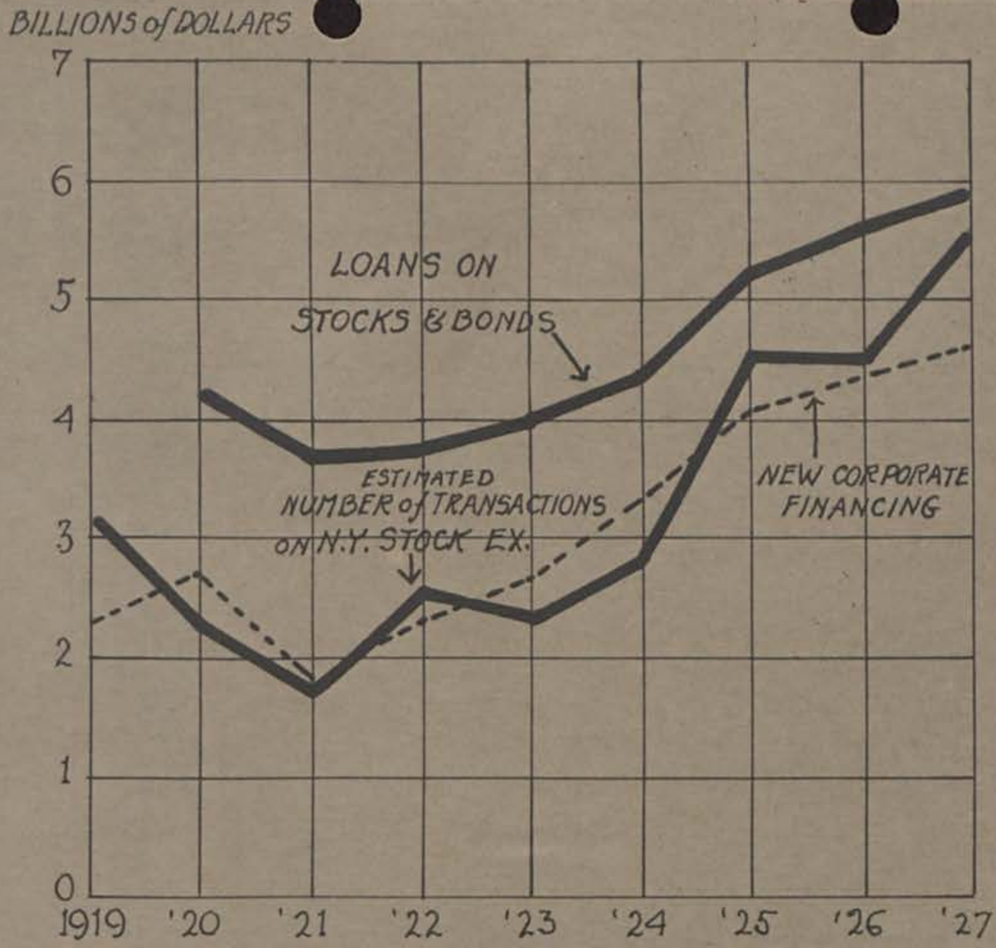
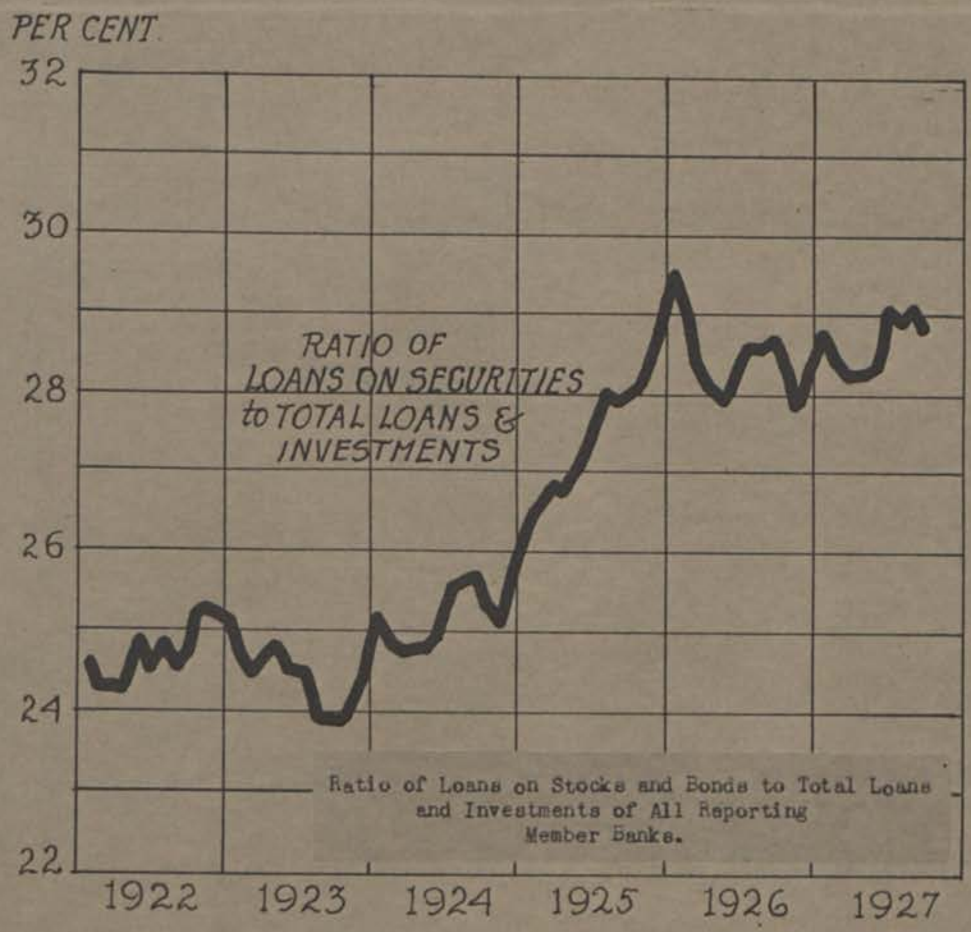


Yearly Averages of Weekly Figures on Loans on Stocks and Bonds by Reporting Member Banks, Compared with Volume of New Corporate Financing and Estimated Number of Transactions on New York Stock Exchange. (1927 estimated)



Ratio of Loans on Stocks and Bonds to Total Loans and Investments of All Reporting Member Banks.

Summary as to 1.

The foregoing facts may be summarized by saying that while loans on securities are very large and have been increasing they do not appear, if they may be judged by previous experience, to be seriously disproportionate to:

A. Stock prices

B. Volume of trading

C. Total bank credit

2. Soundness of Current Market Values

While the foregoing comparisons are interesting and give some indication that the present relation of the use of credit in the security markets to the general growth of credit in the country and the general trend of stock market prices and volume of trading is not unprecedented, the more important related question is whether present values in the security market have a sound basis, for the danger to be feared is a collapse of the market, which would react upon business and bring serious losses to many people. The likelihood of such a crash is increased when stock market prices get out of touch with reality.

There are two general tests as to the soundness of current stock market prices. Stocks are dealt in the same as commodities at varying prices, and presumably there should be some relation between their price movement and the movement of the prices of commodities. But stocks are also a particular kind of commodity, the value of which consists in the current and prospective yield. Thus a more important test of stock prices is their yield compared with the yield of other forms of investment.

Stocks and Commodity Prices

The following diagram compares prices of stocks with the movement of commodity prices and indicates that up until comparatively recently the prices of stocks have increased less since 1913 than the wholesale prices of commodities, but that in the past two years the prices of stocks have tended to exceed the prices of commodities. This comparison for a number of reasons is very rough and very general. The industrial plants, stores, etc., which stocks represent, are commodities the prices of which would not normally move with a general index which includes largely basic commodities. Moreover, industrial concerns are continuously expanding their plants and equipment by the use of surplus earnings, and hence increasing the value of their stocks. This factor is partly compensated for by additional issues of stock. There is no way of knowing how precise is this compensation.

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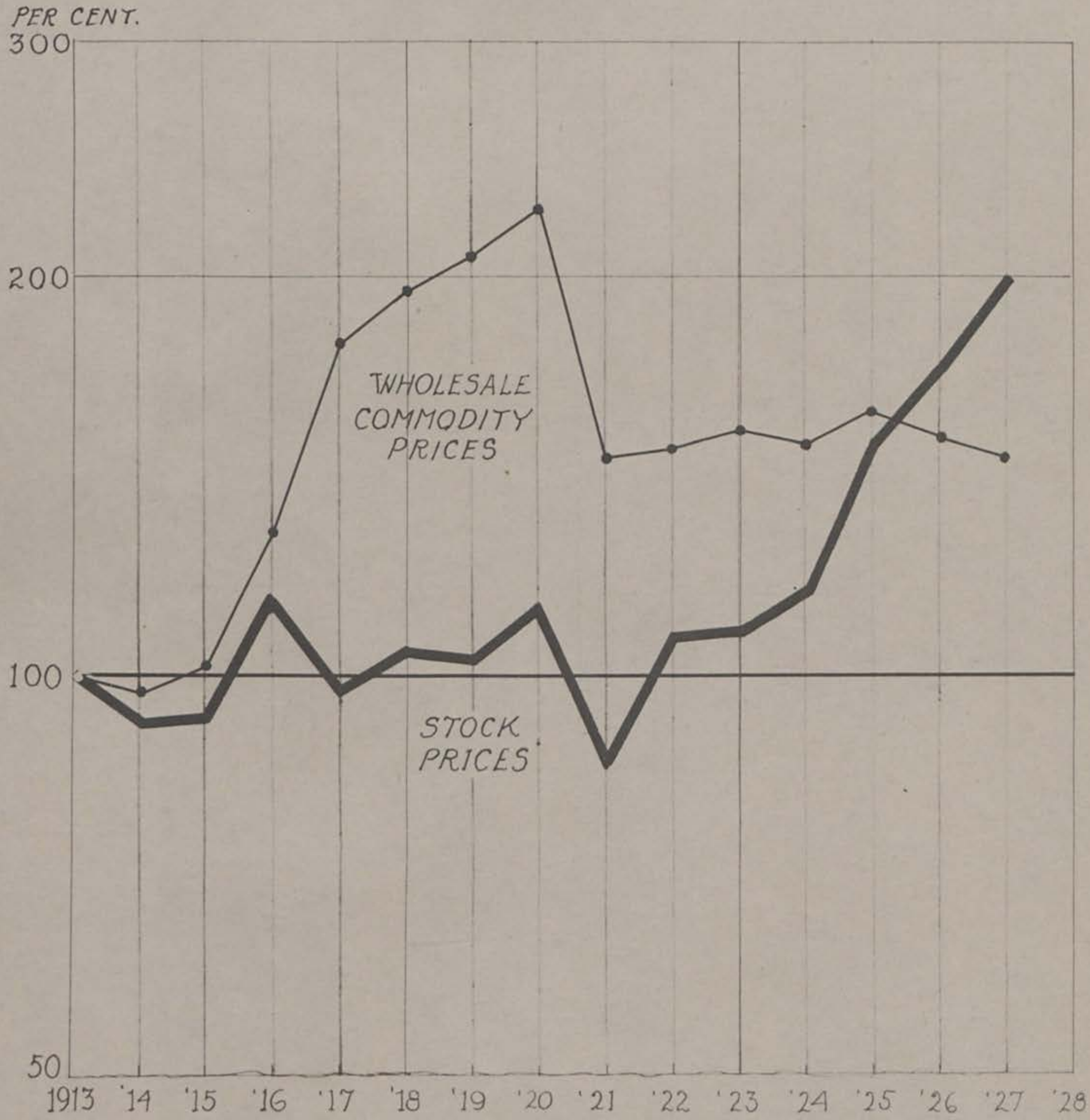

Stock Price Index, Computed by Combining Dow-Jones Averages of Industrial and Railroad Stocks in the Proportion of 3 to 1, Compared with Bureau of Labor Statistics Index of Wholesale Prices. (Both indexes on 1913 base, 1927 estimated.)

Yields on Stocks Compared with Other Investments

Over a long term of years it has been clearly demonstrated that the dividend yields on stocks at their currently quoted prices bear a significant relation to the yields on bonds or money invested for short periods. Stock yields have in this country tended to be one or two per cent higher than bond yields, and also higher than time money rates (as an example of short money rates) but there have been times when stock yields have gone below both bond yields and short money rates. The general relationship of these rates over a period of years is shown in the following diagram.

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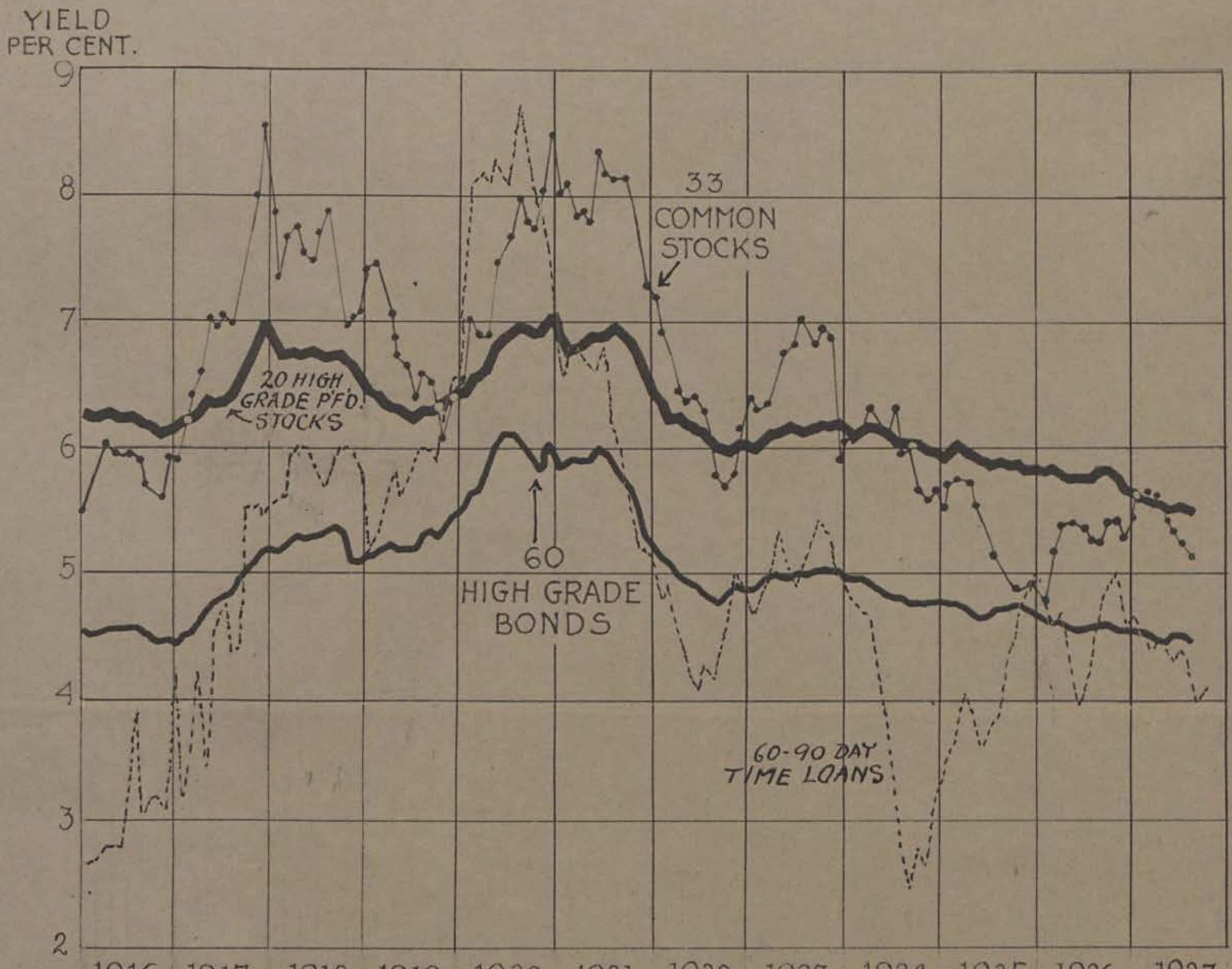

Yields on Dividend Paying Common Stocks Compared with Yields on Preferred Stocks and Bonds and Rates on 60-90 day Time Money.

The normality or abnormality of stock market prices can perhaps be measured more precisely by observing the deviations of stock yields from bond yields and current money rates. Such computations are made in the following diagram. They indicate that while stock yields are low, they are not as low relative to bond yields and money rates as they have been a number of times in the past.

Moreover, there is some reason to believe that a fundamental change may be going on in the relative popularity of stocks and bonds in this country. In our historic emphasis upon bonds rather than stocks as a vehicle for investment, we have not followed the usual European practice. In many of the older European countries in which industries have been very firmly established, stocks of old industries have frequently sold on a yield basis lower than high-grade bonds. This relationship has been justified by the expectancy of increases in prices and yields of industrial shares.

The very heavy losses suffered by bond holders in this country in the past 20 years due to declines in bond values have led to some questioning of the soundness of our historic practice, and more latterly a number of statistical studies have shown that over the past 50 years purchases of common stocks would have constituted sounder investments than bonds. These findings have undoubtedly led to some change in the popular relative esteem of stocks and bonds, which has found expression also in the establishment of many investment trusts a considerable proportion of the funds of which has been invested in common stocks. All of this may be leading to a new relationship between the yields on common stocks, on bonds, and on short time money.

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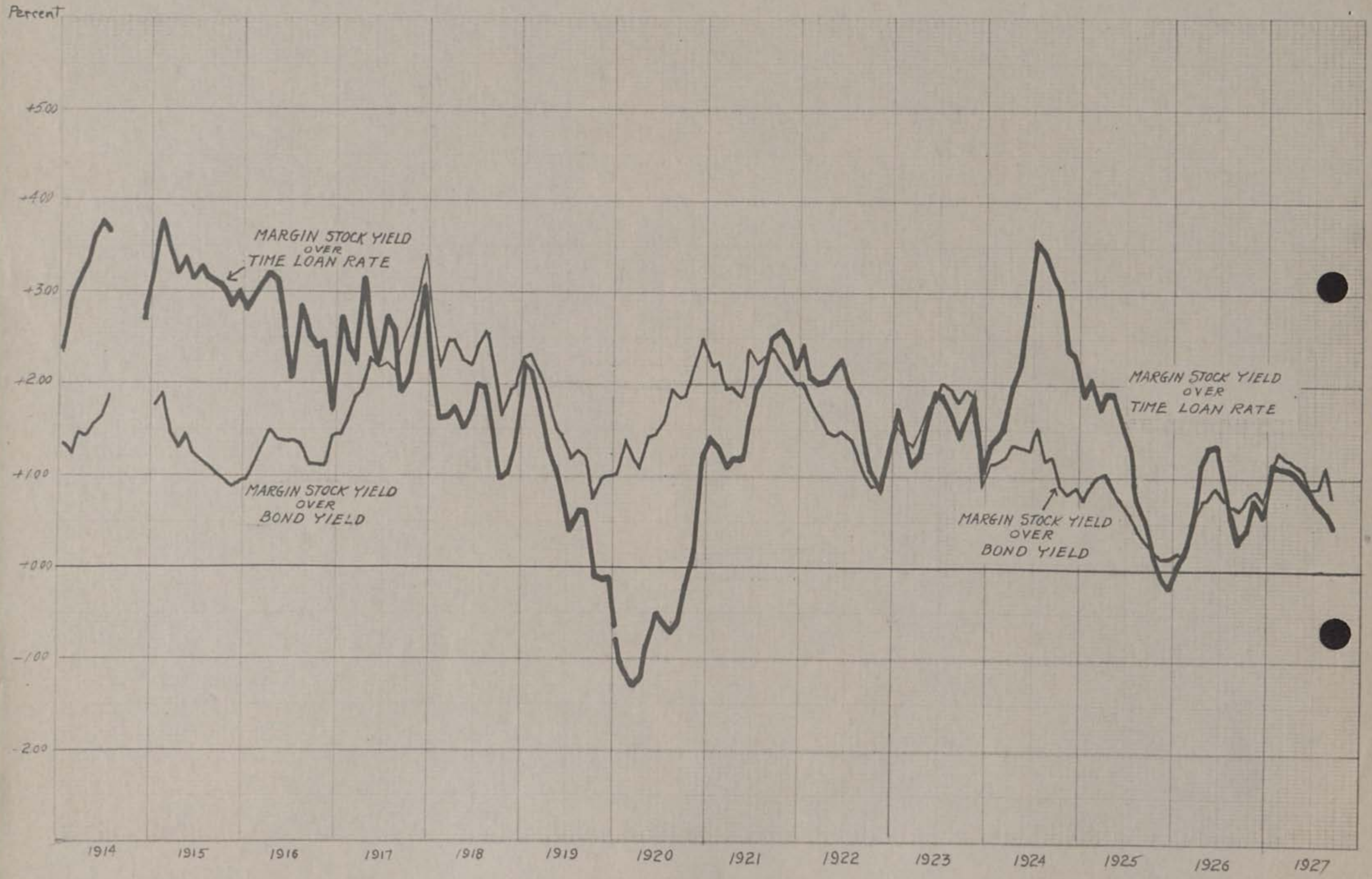
MARGIN BETWEEN YIELD ON COMMON STOCKS AND
(1) TIME MONEY RATES AND (2) BOND YIELDS



Money Rates an Important Factor

The foregoing charts make it clear that money rates have a large influence upon stock prices. It seems reasonably clear that an increase or reduction in short money rates of 1 per cent, for example, might be almost a determining factor in the immediate trend of stock prices, and the permanence of present stock market values depends not a little on the future prospects for money.

Summary as to 2.

A comparison of stock prices and commodity prices indicates that stock prices are now higher relative to 1913 than are wholesale commodity prices, but this comparison is inconclusive because of the number of differences in the two things being compared.

A study of stock yields compared with yields on bonds and short money rates indicates that, from this point of view, stock prices are high, but no higher than they have been a number of times in the past, and there may be going on today also fundamental changes in this relationship. The present level of stock prices appears to be closely related to current money rates.

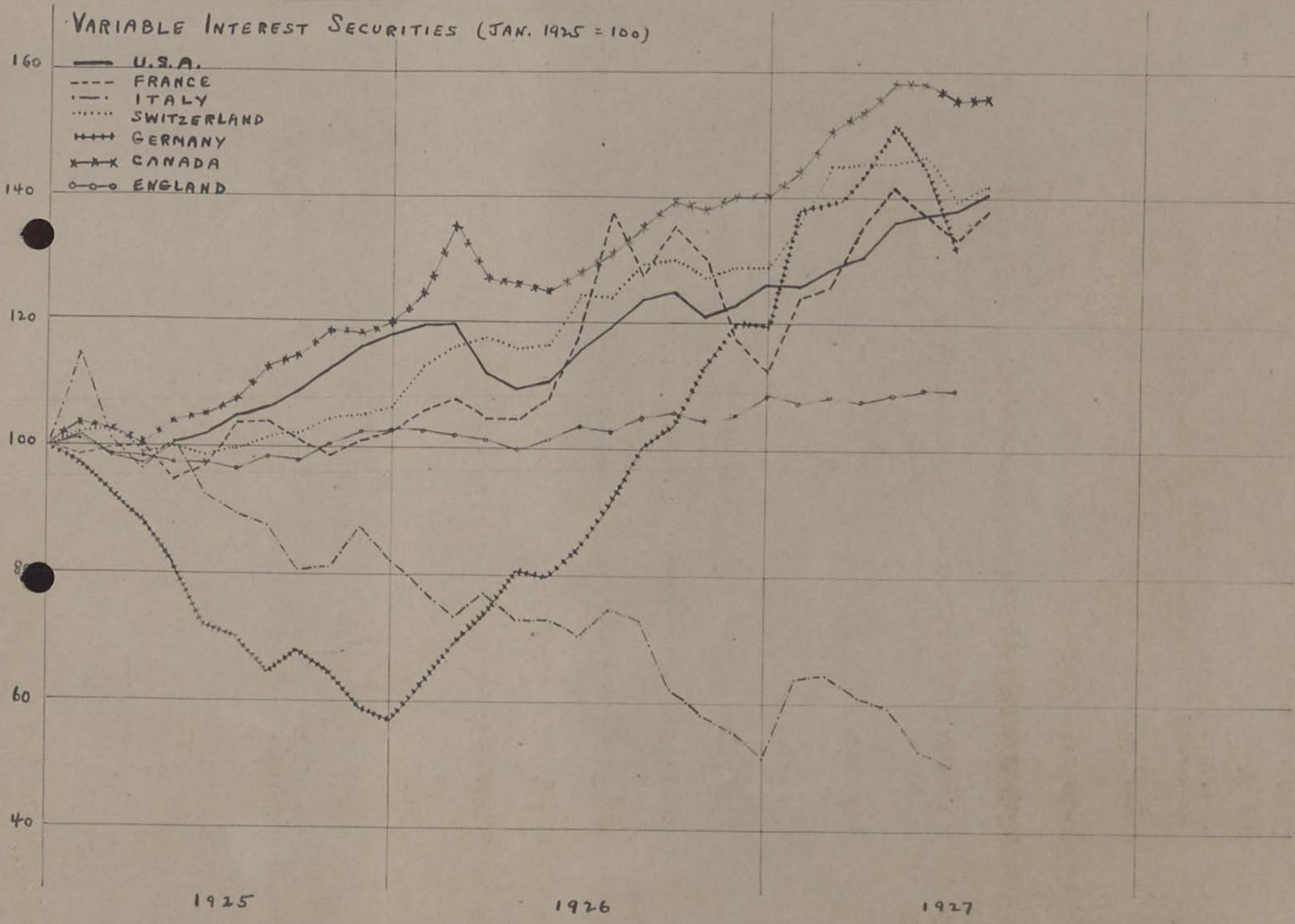
Security Prices Abroad

Some collateral light on security price movements here is thrown by comparing them with movements abroad. This is done in the following two charts, which indicate that both in stocks and bonds we have been dealing recently with a world tendency toward higher prices, which in a number of countries has exceeded the movement here.

The figures are shown in terms of the domestic currencies of various countries converted to a January 1925 base and in the cases of France and Italy are affected by fluctuations in the gold value of those currencies. The decline shown by Italian stock prices, in terms of lire, particularly since the middle of 1926 is due largely to appreciation in the value of the lire. In the case of France, if allowance were made for the appreciation of the franc since the middle of 1926, stock prices would be even higher than shown in the chart.

It would take further analysis than has yet been given to account fully for this world-wide movement. One of the possible explanations is that for the world as a whole we have been going through a period of readjustment to new bases of values. Another theory is that it is an era of unbridled speculation. In any event it is clear that the movement of security prices in this country cannot be laid wholly to our domestic monetary policy.

Indexes of Prices of Variable Interest Securities, Unadjusted for Variations in Exchange Value of Currencies.



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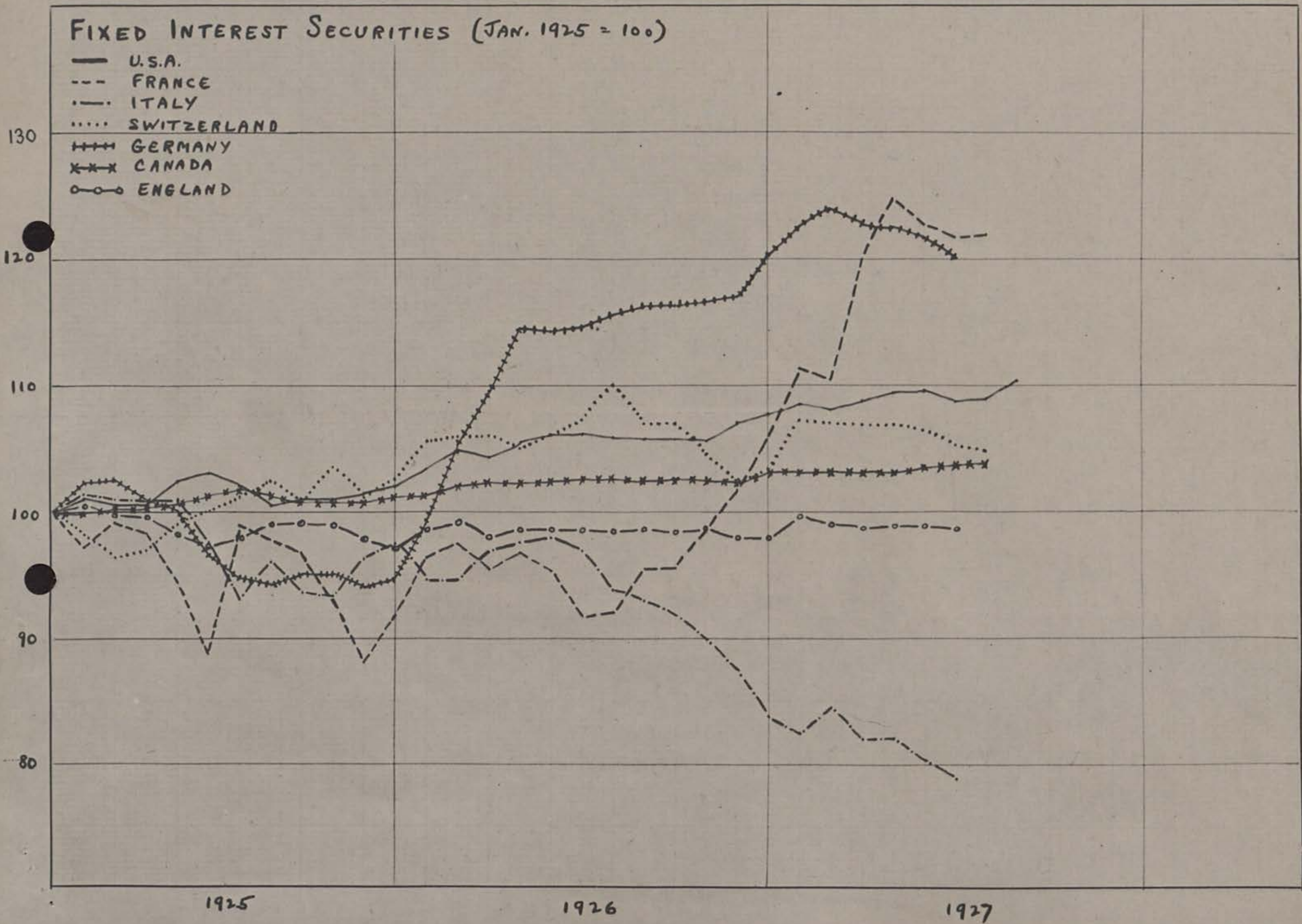
Indexes of Prices of Fixed Interest Securities, Unadjusted for Variations in Exchange Value of Currencies.



REPORT OF THE SECRETARY OF THE OPEN MARKET INVESTMENT COMMITTEE
TO THE GOVERNORS' CONFERENCE, NOVEMBER 2, 1927

The holdings of Government securities in the Special Investment Account at the time of the last Governors' Conference held in Washington, during the week commencing May 9, 1927, amounted to approximately $136,000,000. The holdings in the account since last May have been increased to $375,000,000 by the following purchases:

May & June	To offset earmarked gold for account of foreign correspondents	100,000,000
June & July	Additional purchases made under authority given the Committee at Governors' Conference in May (for purchases not to exceed $100,000,000) which authority terminated on August 1, 1927	29,000,000
July & Aug.	Additional purchases pursuant to action taken at a meeting of the Open Market Investment Committee held in Washington on July 27, 1927	50,000,000
Aug. & Sept.	To offset the sale in this market of the System's sterling balances	60,000,000
	Total holdings	$375,000,000

There have been various other changes which have not affected the total holdings in the account (with the exception of purchases made in replacement of June and September 15 maturities which only temporarily changed the total holdings), the principal transactions being:

June 1927	Purchases in replacement of June 15 maturities for System and Foreign Accounts	$115,000,000
June 1927	Exchange of Second 4 1/4% Liberty Loan bonds for new 3 3/8% Treasury bonds due 1943/47 pursuant to terms of Treasury offering. These Treasury bonds were subsequently sold at a profit in the market in August and a like amount of 3 1/8% certificates due September 15, 1927 were acquired.	20,000,000

July 1927	Exchange with other Federal reserve banks whereby we purchased from their holdings outside of System Account, Treasury certificates and notes maturing September and December 15, 1927, and sold them a like amount of Third 4 1/4% Liberty Loan bonds (approximately)	$20,000,000
July & Aug.	Exchange with a foreign correspondent whereby we purchased from them 3 1/4% certificates maturing September 15, 1927 and sold to them a like amount of 3 1/4% certificates maturing March 15, 1928. In August, the September 15 certificates were exchanged in the market for a like amount of Third 4 1/4s.	30,000,000
September	Purchases made in replacement of September 15 maturities for System and Foreign Accounts. The Open Market Investment Committee approved, including in these purchases, a block of $25,000,000 Fourth 4 1/4s against which authorization a total of $22,500,000 of this issue of bonds was purchased.	155,000,000
September	Exchange of Second 4 1/4% Liberty Loan bonds for like amount of new Treasury 3 1/2% notes due September 15, 1930/32 pursuant to terms of Treasury offering	24,100,000

On June 3 the Federal Reserve Bank of St. Louis asked to be relieved temporarily of $8,000,000 of their participation of Government securities held in the System Account. This amount of Governments was sold from their participation on that date and allotted to all the other participating banks, and on June 9 the Federal Reserve Bank of St. Louis repurchased these securities. On June 29 and July 1 the Federal Reserve Bank of St. Louis again asked to be relieved temporarily of $10,000,000 aggregate amount of their participation of Government securities held in the System Account. $5,000,000 of these securities were allotted to the other participating banks and the remaining $5,000,000 was apportioned to the Federal Reserve Bank of Richmond (having in mind their urgent need for earnings to cover current expenses, etc.) On July 13 the Reserve Bank of St. Louis advised that they could take back the $10,000,000 of Government securities which they temporarily sold and accordingly a sale was made to them on that day of the $5,000,000 which had been allotted to the other participating banks and $5,000,000 from New York's participation in the System Account to replace the $5,000,000 which had been sold to Richmond.

Due to their low reserve position, the Federal Reserve Bank of Richmond requested on October 17 and 19 that they be temporarily relieved of $5,000,000 and $10,000,000, respectively, of their participation of Government securities held in the System Special Investment Account. This sale was accordingly made and the securities were allotted to the other participating banks on the prevailing allotment ratios.

During the first half of the current year System purchases of bankers acceptances and new purchases of Government securities were apportioned to reserve banks on percentages based on each bank's expenses, dividends and charge-offs. With the approval of all the banks, new ratios were put into effect on July 8 based on each bank's earning requirements for the balance of the year. These ratios were again adjusted on September 1, September 19 and October 13, and further adjustments on the same basis will be made from now until the end of the year if the figures submitted by the banks indicate that further changes are necessary.

On September 21 the Federal Reserve Bank of Richmond requested that we discontinue for the present allotting them their share of any new purchases of Government securities. They further advised that they wished to continue their participation in allotments of bankers acceptances and replacement purchases of Government securities.

Attached are statements showing:

Exhibit A - Actual net earnings of all Federal reserve banks for the first nine months of the year 1927 and estimated net earnings for last three months of year 1927, and estimated amount of net earnings or net deficit at end of year.

Exhibit B - Participation of Federal reserve banks in System Special Investment Account Government securities and classification of issues held in the account by maturities.

Exhibit C - Purchases of bankers acceptances since the beginning of the year and amount each bank has received in excess or short of its pro rata share.

Exhibit D - Earning asset holdings of Federal reserve banks October 19, 1927 as compared with previous week, also weekly average from December 29, 1926 to October 19, 1927 as compared with corresponding period of 1926.

EXHIBIT "A"

STATEMENT SHOWING ACTUAL NET EARNINGS OF ALL FEDERAL RESERVE BANKS FOR THE FIRST NINE MONTHS OF THE YEAR 1927 AND ESTIMATED NET EARNINGS FOR LAST THREE MONTHS OF YEAR 1927, AND ESTIMATED AMOUNT OF NET EARNINGS OR NET DEFICIT AT END OF YEAR

	Actual Net Earnings in Excess of Expenses and Dividends, but Before Charge-offs, 9 Months Ended Sept. 30/27	Estimated Net Earnings in Excess of Expenses and Dividends, but Before Charge-offs, for Balance of Year 1927	Estimated Charge-offs for Year 1927	Estimated Net Earnings After All Charge-offs Available for Surplus and Franchise Tax for Year 1927
Boston	$ 138,000	$ 143,000	$ 172,000	$ 109,000
New York	842,000	397,000	475,000	764,000
Philadelphia	175,000	3,000*	78,000	94,000
Cleveland	474,000	178,000	285,000	367,000
Richmond	39,000	124,000	147,000	16,000
Atlanta	406,000	139,000	135,000	410,000
Chicago	647,000	346,000	697,000	296,000
St. Louis	435,000	130,000	317,000	248,000
Minneapolis	89,000	2,000	102,000	11,000*
Kansas City	239,000	82,000	166,000	155,000
Dallas	82,000	8,000	41,000	49,000
San Francisco	629,000	60,000	140,000	549,000
Totals	$4,195,000	$1,606,000	$2,755,000	$3,046,000

*Deficit

EXHIBIT "B"

STATEMENT SHOWING PARTICIPATION BY FEDERAL RESERVE BANKS IN SYSTEM SPECIAL INVESTMENT ACCOUNT AND CLASSIFICATION OF ISSUES HELD OCTOBER 19, 1927 IN THE ACCOUNT BY MATURITIES

Boston	$ 25,853,500	Dec. 15, 1927 - 4 1/2% Treas. Notes	$ 19,327,500
New York	96,994,800	March 15, 1928 - 3 1/4% Cert. of Ind.	60,283,500
Philadelphia	22,987,500	March 15, 1928 - 3% " " "	48,596,000
Cleveland	31,102,500	Sept. 15, 1928 - 4 1/4% 3rd L/L bonds	145,049,000
Richmond	11,214,000	March 15, 1932 - 3 1/2% Treas. Notes	60,889,800
Atlanta	9,860,000	Sept. 15, 1932 - 3 1/2% Treas. Notes	18,244,000
Chicago	53,979,500	Oct. 15, 1938 - 4 1/4% 4th L/L bonds	22,500,000
St. Louis	20,280,000		
Minneapolis	16,672,000		
Kansas City	26,019,000		
Dallas	23,821,500		
San Francisco	36,105,500		
Totals	$374,889,800		$374,889,800

EXHIBIT "C"

PURCHASES OF BANKERS ACCEPTANCES SINCE THE BEGINNING OF THE YEAR, AND AMOUNT EACH BANK NOW HOLDS IN EXCESS OR SHORT OF ITS PRO RATA SHARE UNDER THE APPORTIONMENT PLAN PUT INTO EFFECT IN THE EARLY PART OF THE YEAR AND REVISED ON JULY 8 SEPTEMBER 1, SEPTEMBER 19 AND OCTOBER 13

	Bills Acquired	Bills Entitled to Acquire	Bills Over Pro Rata Share	Bills Short Pro Rata Share
Boston	$ 95,808,000	$ 93,456,000	$2,352,000	0
New York	309,294,000	309,832,000	0	538,000
Philadelphia	91,519,000	94,737,000	0	3,218,000
Cleveland	114,105,000	114,023,000	82,000	0
Richmond	96,457,000	97,938,000	0	1,481,000
Atlanta	49,648,000	49,081,000	567,000	0
Chicago	168,174,000	167,421,000	753,000	0
St. Louis	61,230,000	61,600,000	0	370,000
Minneapolis	52,016,000	53,728,000	0	1,712,000
Kansas City	69,755,000	70,434,000	0	679,000
Dallas	52,412,000	53,487,000	0	1,075,000
San Francisco	81,060,000	75,741,000	5,319,000	0
Totals	$1,241,478,000	$1,241,478,000	$9,073,000	$9,073,000

The overages shown in the above statement are being adjusted in the usual manner by making distribution to other reserve banks.

EXHIBIT "D"

STATEMENT SHOWING EARNING ASSET HOLDINGS OF ALL FEDERAL RESERVE BANKS OCTOBER 19, 1927 COMPARED WITH PREVIOUS WEEK AND OCTOBER 20, 1926, ALSO WEEKLY AVERAGE OF EARNING ASSETS FROM DECEMBER 29, 1926 TO OCTOBER 19, 1927 AS COMPARED WITH CORRESPONDING PERIOD 1926 AND ENTIRE YEAR 1926

(000 Omitted)

	Boston	New York	Phila.	Cleveland	Richmond	Atlanta	Chicago	St.Louis	Minn.	Kan. City	Dallas	San Fran.	Totals
Bills Discounted - Oct. 12	$33,932	$119,787	$35,404	$54,590	$29,014	$22,505	$33,043	$18,805	$ 6,493	$ 12,516	$ 4,797	$ 59,363	$ 430,249
" " " 19	27,641	96,873	38,563	43,306	33,375	25,129	51,129	28,260	2,007	21,707	7,756	41,851	417,597
Net Change	6,291-	22,914-	3,159+	11,284-	4,361+	2,624+	18,086+	9,455+	4,486-	9,191+	2,959+	17,512-	12,652-
Bills Purchased - Oct. 12	28,873	111,125	11,940	16,620	33,251	2,404	25,014	3,866	10,186	9,822	11,672	9,588	274,361
" " " 19	30,366	102,843	12,601	18,757	38,053	2,414	30,533	3,700	11,652	10,656	13,504	7,424	282,503
Net Change	1,493+	8,282-	661+	2,137+	4,802+	10+	5,519+	166-	1,466+	834+	1,832+	2,164-	8,142+
Government Securities - Oct. 12	27,049	105,216	36,222	55,585	27,455	12,988	74,227	36,600	22,880	35,082	31,023	45,802	510,129
" " " 19	27,592	102,026	38,172	57,203	12,455	13,370	74,583	36,900	24,230	35,832	32,227	45,803	500,393
Net Change	543+	3,190-	1,950+	1,618+	15,000-	382+	356+	300+	1,350+	750+	1,204+	1+	9,736-
Total Earning Assets - Oct. 12	89,854	336,128	83,566	126,795	89,720	38,197	132,284	59,271	40,079	57,420	47,492	114,753	1,215,559
" " " " 19	85,599	301,742	89,436	119,266	83,883	40,913	156,245	68,860	38,409	68,195	53,487	95,078	1,201,113
Net Change	4,255-	34,386-	5,870+	7,529-	5,837-	2,716+	23,961+	9,589+	1,670-	10,775+	5,995+	19,675-	14,446-
Comparison of Weekly Average of Earning Assets													
Dec. 29, 1926 to Oct. 19, 1927	71,647	259,977	81,087	107,012	48,804	49,214	146,389	59,277	32,447	53,141	43,018	102,678	1,054,691
Same period 1926	80,818	272,491	90,072	106,914	61,342	75,957	153,674	63,210	37,973	63,902	53,501	115,279	1,175,133
Entire year 1926	82,511	278,628	91,705	115,174	59,659	76,645	164,144	63,841	37,874	63,528	52,777	116,047	1,202,533
Net change from same period 1926	9,171-	12,514-	8,985-	98+	12,538-	26,743-	7,285-	3,933-	5,526-	10,761-	10,483-	12,601-	120,442-
" " " entire year 1926	10,864-	18,651-	10,618-	8,162-	10,855-	27,431-	17,755-	4,564-	5,427-	10,387-	9,759-	13,369-	147,842-
Comparison of Earning Assets													
October 19, 1927	85,599	301,742	89,436	119,266	83,883	40,913	156,245	68,860	38,409	68,195	53,487	95,078	1,201,113
October 20, 1926	65,285	205,574	94,846	136,604	67,883	92,479	173,788	67,504	50,788	59,070	52,045	123,044	1,188,910
Net Change	20,314+	96,168+	5,410-	17,338-	16,000+	51,566-	17,543-	1,356+	12,379-	9,125+	1,442+	27,966-	12,203+

SUMMARY FOR SYSTEM

Bills Discounted for week	$12,652-
Bills Purchased for week	8,142+
Government Securities for week	9,736-
Total Earning Assets for week	14,446-
Comparison of Weekly Average of Earning Assets Dec. 29, 1926 to Oct. 19, 1927 with same period 1926	120,442-
Comparison of Weekly Average of Earning Assets Dec. 29, 1926 to Oct. 19, 1927 with entire year 1926	147,842-
Comparison of Earning Assets Oct. 19, 1927 with Oct. 20, 1926	12,203+

November 1, 1927.

The committee has considered the confidential preliminary memoranda submitted by the Chairman, and upon the basis of the memoranda proposes that the open market policy of the System until March 1st next, unless developments not now anticipated require a further review, shall be: to maintain stable rates for money at about present levels and prevent further imports of gold.

In order to carry out the above policy, the committee would adopt the following program and procedure:

(1) The plan of offsetting gold movements by purchases and sales of securities would be continued as heretofore.

(2) Any considerable advance in rates for money towards the end of the year would be dealt with only if necessary by temporary purchases of securities.

(3) During the return flow of currency which usually occurs in January, sales of securities would be made in amounts sufficient to insure retirement of the seasonal issue and prevent its being added to member bank reserves.

(4) In event of the renewal of a gold movement to the United States, gold may be purchased abroad in London, and possibly in Holland and Switzerland, if necessary, at approximately their gold export points, or exchange on those countries may be purchased, so as to arrest, if possible, a further importation of gold. The limit upon such purchases to be $100,000,000. Such purchases would also be offset the same as the gold movement. Gold or exchange purchased may be invested in bills or employed at interest, as in the case of the bank of England account.

(5) The considerations which will guide the committee as to when and for what amounts such transactions shall be made, are:

(a) The amount of borrowings by member banks from the Reserve banks;

(b) The general level of interest rates;

(c) The movement of foreign exchange rates as an indication of possible gold imports.

The committee would expect to be charged with the execution of the program for account of those Reserve banks which approve and participate.

November 2, 1927.

MM

OPEN MARKET COMMITTEE MEETINGS.

1927, March 21. Committee requested authority:

1. To replace 25 millions of Government securities which had run off, leaving System account at only 200 millions. Passed unanimously.

2. Buying 50 millions to replace that amount taken from market by turning 50 millions of Federal Reserve investments for foreign banks into acceptances taken from portfolio of Federal Reserve banks.

C.S.H. moved to approve above, but Board, on Miller's motion, voted to postpone, stating it was ready to meet Committee at short notice, or would meet Directors of Federal Reserve Bank of New York should the Committee authorize them to speak for it.

C.S.H. alone voted No.

1927, May 12. Meeting. Committee recommended:

1. Replacing 90 millions sold to pay for the 60 millions gold bought from Bank of France, and about 30 millions sent by Bank of France to United States, thus reducing System account to about 100 millions.

2. Committee recommended that System account be gradually increased to 250 millions. C.S.H. moved to approve increasing system account to 250 millions.

On motion of Miller postponed until another meeting be called by Governor Cris. after consultation with Secretary Mellon.

Secretary Mellon, C.S.H. and James voted No.

1927, May 13. C.S.H. moves approval of Committee recommendation to increase special account to 250 millions. Platt moved approval, but that purchase should proceed slowly with a view to the possibility that it may not be advisable to purchase the full amount within the time fixed, that is, up to August 1, 1927.

Secretary Mellon said he did not object to this, and C.S.H. withdrew his motion.

Miller moved in substitution:

1. Approving statement in report that no further securities be sold at the present time.

2. Disapproving further purchases up to 250 millions.

Miller's motion was lost, Secretary Mellon, the Comptroller, C.S.H., Platt and James voting No. Governor Seay, Miller, and Cunningham voted Aye.

Platt's motion of approval was then carried, everyone voting aye except Dr. Miller, who voted No.

1927, June 23. Board confers with Governor Strong. Question arose whether the authority given on May 13th to increase the special account to 250 millions was exhausted by the offsetting purchase of 100 millions against the withdrawal by the Bank of France from its New York correspondents of 100 millions.

C.S.H. moved that the offsetting purchases were not to be counted as part of the 250 millions. Passed.

Aye: Secretary Mellon, C.S.H., Governor Crissinger, and James
No: Miller and Cunningham.

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FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

Date October 7, 1927

To Governors Conference

Subject: Finance Companies Specializing in Bank Stock Investments.

From J.H. Case

During the past few years several financial corporations specializing in the ownership of bank stocks have had rather spectacular success and have had a widespread effect on bank ownership. Their operations appear to be likely ultimately to bring about a widespread development of branch banking where permitted by State laws, or of chain banking where operation of branches is not permitted by law. The pioneer in this development has been the Bancitaly Corporation, New York City, which is headed by A. P. Giannini of San Francisco. Its operations have extended over a number of years and have resulted in building the Bank of Italy National Trust and Savings Association into an institution of over $600,000,000 deposits with 282 branches in the State of California. The Bancitaly Corporation also has a chain of banks and branches in New York City consisting of the Bowery & East River National Bank with 15 branches and deposits of over $90,000,000, and three smaller New York institutions which will probably be consolidated into the Bowery & East River National Bank. It also has a heavy investment in a number of European banking institutions. In addition to the Bancitaly Corporation's holdings of bank stock for control purposes, it owns a very large amount of bank stock as investments. The Bancitaly Corporation on July 22, 1927 reported a capital of $78,750,000, surplus and profits of $138,627,813 or a total of $217,377,813. The market value of its outstanding stock is at present over $595,000,000.

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In New York City the Financial & Industrial Securities Corporation is operating in connection with the Manufacturers Trust Company in a manner somewhat similar to that of the Bancitaly Corporation. It is controlled by Ralph Jonas whose brother, Nathan S. Jonas, is President of the Manufacturers Trust Company and it has been used by them in acquiring banks to be absorbed by the Manufacturers Trust Company. These interests use also several other affiliated corporations including the Corporation & General Securities, Inc., Tower Manufacturing Company, Rodmore Corporation, National Liberty Insurance Company, Peoples National Fire Insurance Company and Baltimore American Insurance Company to carry stock of the Manufacturers Trust Company and other financial institutions in which they are interested. To assist in these operations the Financial & Industrial Securities Corporation has at times received large loans from the Manufacturers Trust Company which have later been liquidated from the proceeds of sale to the public of stock in the Financial & Industrial Securities Corporation. Its statement of February 28, 1927 showed capital stock consisting of preferred $25,000,000, common $20,016,000, total $45,016,000 which has a present market value of approximately $168,000,000. The transactions of this corporation appear to have been for the purpose of acquiring control of banks rather than to hold stocks as investments.

<u>Other Companies:</u>

The apparent success of the two above companies and the spectacular rise in the market value of their stocks has recently led to the organization of a considerable number of companies of similar character and purpose which are briefly commented upon as follows:

National American Company, Inc., 26 Broadway, New York City

The capital and surplus of this company was reported June 30, 1927 as $5,372,046.01. This company is affiliated with the Central Mercantile Bank & Trust Company whose president, C. Stanley Mitchell is Chairman of the National American Co., Inc. The active officers are: David H. Knott, President; John A. Dilliard, Vice-President; Harold G. Aron, Treasurer; Toney A. Hardy, Secretary. This company has recently purchased control of several New York City banks, including the Bronx National Bank, Cosmopolitan Bank, Terminal Trust Company and Bank of Coney Island. We are informed that the purpose in purchasing these banks is for resale at a profit rather than for holding as investment or consolidation with the Central Mercantile Bank & Trust Co. and it has recently resold the Bronx National Bank to the Bank of the Manhattan Company. The National American Co.,Inc. has a subsidiary known as the National American Securities Company with capital of $250,000.

City Financial Corporation, 5th Ave. & 32nd St., New York City.

The stock of this corporation was offered to shareholders of the Bank of United States on September 1, 1927. It has been announced that the aggregate capital is to be over $20,000,000 and that the stock offered to the shareholders of the Bank of United States in units of 1½ shares of Class A and ½ share of Class B at $85.50 per unit has been greatly oversubscribed. The Class B stock has sole voting power. Only the Class A stock has been offered to the general public, the price being $63 per share. The corporation will be under the management of B. K. Marcus, President, and Saul Singer, Executive Vice-President, of the Bank of United States, who is presently to resign his bank position to become President of the City Financial Corporation.

Hub Financial Corporation, New York City.

Announcement of the issuance and sale of stock of this corporation was made September 21, 1927 by Harry H. Revman and Julius Blauner who are President and Vice President, respectively, of the Seventh National Bank. The announcement stated that there would be presently issued 100,000 shares of Class A stock and 100,000 Class B stock, the latter to have the sole voting power. At the announced price the stock to be sold would bring in capital funds of $6,400,000.

Manhattan Financial Corporation, New York City.

On September 26, 1927 an offering of stock in this company was announced with list of directors which include a number of men affiliated with the Times Square Trust Co., New York City. Bernard Reich and John H. Brennen, Chairman of the Board and President, respectively, of the Times Square Trust Company, will be President and Chairman of the Executive Committee of the new corporation. Stock is of three classes, A, B and C, and the advertisement indicates that voting power will rest in the 4,500 shares of Class C stock which are called "management shares". It also appears that the company will have capital funds of over $6,000,000 as a result of the sale of the stock offered.

United Investors Securities Corporation, 551 Fifth Avenue, New York City.

The organization of this corporation has been announced by Archibald C. Emery, President of the Hamilton National Bank, New York City, who is also President and Chairman of the Investment Committee of this company. The company plans to issue 50,000 shares of 6% preferred stock at $50 per share, 400,000 shares of B common non-voting shares at $10, and 20,000 shares of A common voting shares. This would indicate capital funds of $6,500,000 or more. It is stated that the company is formed for the purpose of purchasing, holding and selling high grade securities of municipalities, utilities, industrial companies, railroads and banks.

Murray Hill Allied Corporation, New York City.

This corporation has been organized as an affiliation of the Murray Hill Trust Company. Its capital is reported as $200,000 (10,000 shares at $20 per share) and its purpose is the making of investments not permissible to the trust company under State banking law.

Municipal Financial Corporation, 27 Cedar St., N.Y.C., and 350 Stone Ave., Brooklyn, N.Y.

It was announced on September 14, 1927 that the Municipal Bank of Brooklyn had organized a subsidiary securities company to be known as the Municipal Financial Corporation with an authorized capital of 300,000 shares of no par value of which 170,000 shares were to be offered for public subscription; also that it is expected the corporation will start business with a capital of $10,000,000. President Samuel Barnett of the Municipal Bank has stated that the corporation would do business somewhat along the lines of an investment trust, dealing in the securities of banks, trust companies, surety companies and other financial institutions. It has also been stated that a primary purpose of this corporation will be to protect the management of the Municipal Bank from losing control of the institution.

First Trust Bank, Inc. (a Delaware Corporation) - New York City.

This is a proposition organized by a group consisting of Charles G. Gates, President, formerly of Clarence Hodson, Inc.; Thomas J. Torpey who is reported to be Vice President of the National Surety Company; Harry E. Wheeler, Treasurer, formerly of Sperry & Hutchinson Company; William H. Foss of the Astor Mortgage Co., 165 Broadway, New

York City and Don S. Hutchinson, son of Shelley B. Hutchinson. Shelley B. Hutchinson, formerly of Sperry & Hutchinson Co., is apparently the prime mover in this organization and its stock is being sold through the First Fiscal Corporation, 522 Fifth Avenue, New York City. Some of those connected have poor records. The amount of authorized capital stock is 120,000 shares and the First Fiscal Corporation recently announced offering of 3,000 shares at $125 per share. The purpose of the company is stated as "chain banking", i.e., the acquisition of the controlling interest in numerous national and state banks and trust companies located in the various cities of the United States.

Bankers Capital Corporation, 44 Wall Street, New York City.

This corporation was incorporated January 19, 1923 to take over the investment banking business of Gunder, Mann & Co. It appears to operate as a subsidiary, the Eastern Bankers Corporation, 44 Wall Street, New York City. The claimed outstanding capital on December 31, 1926 was $188,900 preferred and $1,000,000 common. It appears to be operating as an investment trust.

Bankstocks Corporation, 27 Pine Street, New York City.

This corporation is understood to be affiliated with Shields & Co. and to be operated as an investment trust. A report obtained March 9, 1925 indicated that its capital has been supplied by issuance of $1,000,000 5% secured gold notes and 150,000 shares no par value common stock.

United States Shares Corporation,

This is a corporation headed by Travis H. Whitney, Chairman of the Board, who is a Vice President of the Brooklyn Manhattan Transit Company and a former Public Service Commissioner. Its President is Herbert L. Rackliff. This company buys securities, deposits them with trustees, who in turn issue participating trust certificates to the purchaser. The Directors have power to substitute securities and upon such substitution shareholders are given full information. Among the issues which it has announced are two series of bank stock trust shares covering ownership in stocks of 30 leading financial institutions of New York and other large cities. It has recently announced the issuance of a series of Canadian bank stock trust shares representing ownership in stock of 9 leading Canadian banks.

<u>Bell Financial Corporation</u>, New York City.

Announcement of the organization of this corporation was made October 6, 1927, its capital being reported as $10,000,000, surplus $1,000,000. It is reported to have acquired the Century Bank of New York, at 23rd. Street between 8th and 9th Avenues, and the Dewey State Bank of Brooklyn, N.Y. at Avenue M and East 17th Street. It has also taken over control of the Bell Investment Company of 1170 Broadway, the Elpeco Trading Company and the Mortgage Guarantee & Title Company, Broadway & Park Place, New York City. Its directors are as follows: Nathan Sadowsky, President of the Bell Investment Co. and Pres. & Treas. of R. Sadowsky, Inc., cloak manufacturer; Louis Margolis, President of Dewey State Bank; Elias Preiss, President of the Elpeco Trading Company; Samuel Kaufman, Director of Times Square Trust Company, Philip Maslansky of the New York Merchandise Company and Samuel Katz of the fur house of that name.

<u>United States Financial Corporation, New York City</u>.

It has been reported that this corporation has been organized to deal in bank stocks and it is understood to be closely affiliated with the United States Bond & Mortgage Corporation of 8 East 41st Street, New York City which advertises itself as the largest second mortgage institution in America. It is rumored to have bought control of the Citizens National Bank of Freeport, N.Y. and to be negotiating to purchase control of the First National Bank of Bellmore, N.Y.

New Jersey Bankers Securities Corporation, Passaic, N. J.

This company was organized August 18, 1927 with authorized capital of 300,000 shares no par value which was sold to the public at $12.50 per share yielding capital funds of approximately $3,750,000. An additional issue of a like number of shares of stock has since been offered, the price to the general public being $17.50 per share, and to depositors in banks controlled by the company price is to be $16.50 per share and to original stockholders $15.50 per share. This should give the company additional funds of close to $5,000,000, so that its total capital funds will be close to $8,750,000. The company has already acquired control through stock ownership in the following banks: Hobart Trust Company, Service Trust Company, Equitable Title & Mortgage Company of Passaic, N. J., and Washington Trust Co., Guaranty Trust Company, Weequahic Trust Company and Liberty Trust Company of Newark, N. J. The active movers in the company are Harry H. Weinberger, President, and William Harris, Director, both of whom have been subject to unfavorable comment in the past. They have associated with them on the directorate several men prominent in public life including United States Senator Edward I. Edwards. Our information is that prices paid by the company for banks acquired by it are in some cases considerably above sound value making it very doubtful whether the company can obtain earnings sufficient to yield a reasonable return on the investment.

Columbia Investing Company 44 Pine Street, New York City.

The organization of this company was announced September 24, 1927 and it has offered 25,000 units of preferred and common stock which will give an initial capital of $2,625,000. The Board of directors will include among others, Michael Hollander, Chairman of the Board of the Guardian Trust Company of Newark, N. J., James Rattray, President of the Guardian Securities Co. of Newark and Arthur M. Lamport, President of the investment banking house of A. M. Lamport & Co., New York City.

New Jersey Bond & Shareholding Corporation. 17-25 Academy Str., Newark, N.J.

Announcement of the organization of this company was made October 10, 1927 and following securities offered for sale to the public: 5½ debenture bonds $1,000,000, 7% cumulative preferred stock $500,000, common stock no par value 100,000 shares to be sold at $12.50. The announcement lists a board of directors of 21 members and an advisory council of about 50 members representative of all parts of the State of New Jersey.

Purpose of Finance Companies Specializing in Purchase of Bank Stocks

The purposes of companies such as those above reviewed in the acquisition of bank stocks may be summarized as follows:

1. To obtain control of banks for purpose of consolidation,
2. To obtain control of banks to be operated as part of a so-called chain.
3. To obtain control for purpose of early resale at a profit.
4. To control ownership in the interest of the existing management.
5. To obtain and hold relatively moderate amounts of stock for investment purposes.
6. To sell stock to the public at values excessive in relation to the value of the assets acquired by the corporation, the difference accruing to the benefit of the promoters.

Probable Effects of the Operations of Companies of this Kind:

It is well at this time to give careful consideration to the probable effects of the continued and expanded operations of companies such as those which have been mentioned above and new companies of similar character which are likely to be organized. In the case of a successful and apparently well managed organization such as that of the Bancitaly Corporation and the banks which it controls, it may in general be said that the effects thus far appear not to have been harmful. Several of the banks in this city which the Bancitaly Corporation interests have taken over were in distinctly unsatisfactory condition and good work has been done in clearing up the poor loans. However, the tremendous banking powers which may be wielded by thus controlling a corporation with over $217,000,000 capital funds invested mostly in bank stocks is a matter of serious concern in a country where the desirability of independent banking units is generally recognized. Moreover, the ability of the corporation to obtain large additional amounts of capital by the sale of its stock to the public has been well demonstrated and it therefore appears possible that its operations may be and probably will be greatly expanded even from their present wide scope.

What has been said of the Bancitaly Corporation is true, though to a smaller degree as yet, of the Financial & Industrial Securities Corporation which is operating along very similar lines although confining its operations thus far, we understand, to New York City. It is to be expected that as imitators engage in similar activities, there will be many instances in which the management of the banks taken over will become poorer rather than be improved. Such a condition, it is to be feared, is already to be noted in the case of the New Jersey Bankers Securities Corporation, as the President of the corporation has, according to authentic information in our files, heretofore engaged in operations, through a trust company of which he is president, of such character as to indicate very definitely that he is not a suitable person to manage banking institutions.

A very important effect of the operations of corporations specializing in the purchase of bank stocks has been to force the prices of such stocks to new high levels in many instances not justified by the asset value of the stock nor its present or prospective earning power. While it may be that the rise which has taken place in bank stocks is a part of the general upward movement in securities, it is worthy of note that banks which have been the subject of special attention from financial corporations of this kind had by far the largest increase in market value. The following tabulation shows the course of average New York City bank stock prices as related to book values and also the movement in the case of individual banks.

Market Value of Stocks of Several Selected New York City Banks

	1925		1926		1927	
	Apr.1	Sept.1	Feb.6	Oct.18	Feb.3	Aug.1
Bowery & East River N/B	$ 230	350	360	390	400	630
Chase National Bank	400	480	532	405	422	540
National City Bank	517	608	605	610	518	575
National Bank of Commerce	343	377	375	384	425	524
First National Bank	2,390	2,850	2,800	2,525	2,675	3,450
Seaboard National Bank	450	590	670	690	695	905
Bank of America	255	290	300	300	300	345
Corn Exchange Bank	460	506	585	560	535	575
Municipal Bank	250	250	295	300	315	390
Mechanics Bank	225	225	320	285	340	345
Bankers Trust Co.	445	502	640	625	670	880
Central Merc. Bank & Tr.	235	260	315	275	295	328
Equitable Trust Co.	250	300	290	270	305	385
Guaranty Trust Co.	307	370	380	400	445	572
Manufacturers Trust Co.	315	440	520	510	548	835

Ratio of Market Value to Book Value
(Book Value - 100)

	1925		1926		1927	
	Apr. 1	Sept.1	Feb. 6	Oct.18	Feb.3	Aug. 1
Bowery & East River N/B	117	175	178	188	184	280
Chase National Bank	253	298	315	211	215	271
National City Bank	234	270	263	270	222	299
Nat'l Bank of Commerce	132	144	142	143	157	191
First National Bank	314	356	334	298	306	380
Seaboard National Bk.	175	219	255	252	246	306
Bank of America	139	162	169	168	166	191
Corn Exchange Bank	196	213	238	226	211	230

Ratio of Market Value to Book Value (Con'd)
(Book Value - 100)

	1925		1926		1927	
	Apr. 1.	Sept. 1	Feb. 6	Oct. 18	Feb. 3	Aug. 1
Municipal Bank	185	180	209	203	210	236
Mechanics Bank	186	179	242	216	254	245
Bankers Trust Company	191	209	251	229	239	300
Central Merc. Bk.& Tr.	147	156	181	149	168	183
Equitable Trust Company	169	199	173	155	174	215
Guaranty Trust Co.	173	204	202	202	218	274
Manufacturers Trust Co.	148	198	226	208	217	312

It appears obvious that in general the price of these stocks has been advanced to a point where earnings cannot yield more than a very moderate return on the investment and that in some instances the bank's earnings must be phenomenal to give even a fair return. When it is recalled that bank earnings for the past few years have been in considerable part due to profit on security transactions due to a continuously rising security market, it appears clear that bank stock prices have been driven to a point considerably above sound values. It is not at all improbable that the spread of the investment trust idea has had an important part in causing the upward movement of stocks of other classes, such as insurance companies, etc. Comment has been frequently made that many of these investment trusts are beginning their operations at a time when the prices of the securities which they will acquire are very high and it is greatly to be feared that should it later develop that such organizations cannot meet the expectations of profit which investors therein have been led to entertain, a denouement highly dangerous to the general situation may result.

It seems very certain therefore that while the operations of some of the companies of this kind may not be harmful, the movement as a whole is accompanied by grave dangers and should be subjected to close scrutiny by those charged with responsibilities of bank supervision, both State and National. Former Governor Stokes of New Jersey recently published an open letter to the New Jersey Banking Department protesting against corporations owing chain of banks and suggesting that a law be enacted restricting ownership of bank stocks to individuals and estates falling heir to such securities handled. Parties associated with the New Jersey Bankers Securities Corporation have taken exception to Ex-Governor Stokes' statement, and he has now stated that he does not refer to the New Jersey Bankers Securities Corporation in his announcement. The views advanced by Ex-Governor Stokes, however, will undoubtedly have wide support among careful bankers and business men and it appears most desirable that consideration be given to means whereby this movement may be kept within safe bounds.

Recommendation: That at an early date there be held conferences of the officers of the Federal Reserve Banks with the Comptroller of the Currency, the Chief National Bank Examiners and the Superintendents of Banks for the purpose of considering this general problem and working out plans for dealing with it in each Federal Reserve District. Among the measures which seem desirable are the following:

1. Examinations or investigations of companies engaged in purchase of bank stocks should be made by the appropriate State authorities and efforts should be made to have such companies publish from time to time statements of their financial condition and lists of the securities held by them and the price at which they are being carried.

2. Frequent and searching examinations of banks included in chains controlled by these companies should be made.

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3. That in the examinations of all banks, loans to companies of this kind or loans based upon their stock should be set out in the examination report.

4. That in case where circumstances warrant, the attention of Attorney General of the State be called to the operations of any particular company which is engaging in illegal practices.

COPY

Report of the Committee on Bank and Public Relations

to the Agents' Conference - November 1927.

The amendment to the Federal Reserve Act, which provides for indeterminate charters for the Federal Reserve Banks leaves us free to devise a system public relations program which may have for its aim the gradual development of better understanding of the System over a long period of years. The discussion which centered about the passage of this amendment has moreover indicated wide public appreciation of the value of the Federal Reserve System.

Future Public Relations Program

In this generally favorable atmosphere it becomes possible to consider broadly the System's public relations policy for coming years, and it is proposed in this report to sketch some of the principles which may well determine that policy and some of the methods which may well be employed.

At the outset a few axiomatic principles may be set forth which are basic to Federal Reserve public relations work.

1. It must in no way savor of propaganda. As a public institution the Federal Reserve System must always be in a dignified position. Propaganda arouses hostility and disrespect.

2. Public relations work cannot be done by an organized publicity staff, because -

   (a) it would savor of propaganda;
   (b) such a staff would not have the necessary technical knowledge for dealing with Federal Reserve questions;
   (c) public relations is a matter of personal relations in the last analysis and hence must be done by people who are an integral part of each Reserve Bank.

3. It must not be controversial. Controversy arouses enmity and is dangerous.

4. There are three general fields of public relations work in the following order of importance -

   (a) The member and nonmember banks. The best advertisement is a satisfied customer.

   (b) Schools and colleges. These are the places where public opinion is basically formed.

   (c) The general public.

Suggested methods for public relations work in these three fields, together with a summary of what the System is now doing, are contained in the following paragraphs.

A. Member and Nonmember Banks.

In every community it is the banker and the college teacher who are the experts on the Federal Reserve System, and the banker's opinion carries the weight of personal knowledge. The banker is the customer of the Federal Reserve System, who must be satisfied.

There are three ways in which the banker gets his impression of his Federal Reserve Bank, - personal contact, correspondence, and literature. By far the most important of these is, I am sure we would all agree, the personal contact.

Personal Contact.

The maintaining of effective personal contacts with the banks in our districts is laborious, but essential to a common understanding. The three usual methods of contact are, - when we go to see the banker, when he comes to see us, and when we meet on common ground at conventions and group meetings.

Visits to Banks.

Of these three the most effective is our visit to the member banker. Such a visit at once indicates our regard for him and puts him in the position of the courteous host. Nothing can take the place of these visits. In this connection the following table gives the customary report of the visits made to banks in the different districts. It indicates that during the year, from September 1, 1926 through August 31, 1927, the member banks in the Boston, New York, Cleveland, and St. Louis districts were visited on the average twice a year; that the member banks in the Philadelphia, Chicago, Dallas, and San Francisco districts were visited on the average about once a year, but that the member banks in the Richmond, Atlanta, Minneapolis, and Kansas City districts were visited considerably less than once a year on the average. Some of the Reserve Banks have to contend with the isolation of many of their member banks, but some whose districts are most difficult to cover have averaged a visit a year.

VISITS TO BANKS

	Number of Member Banks Aug. 31, 1927	Sept. 1925 to Aug. 1926	Sept. 1926 to Aug. 1927
Boston	414	902	866
New York	929	1,283	1,963
Philadelphia	774	923	869
Cleveland	837	1,818	1,361
Richmond	568	804	154
Atlanta	469	52	51
Chicago	1,304	1,945	1,219
St. Louis	597	1,842	1,085
Minneapolis	741	135	121
Kansas City	975	445	448
Dallas	818	1,134	1,003
San Francisco	673	827	693
	9,099	12,110	10,133

In this connection note should be taken of the fact that the total number of visits to banks this year, numbering 10,000, was approximately 2,000 less than in the preceding year, which in turn was less than the year before. Your committee is of the view that decreases in bank visits are of doubtful wisdom, and believes that there is no single method of public relations work which is so fruitful of better understanding as visits to member banks.

The quality of the visits is fully as important as the quantity, and in this connection data collected at the suggestion of Governor Norris are of interest.

Range of Salaries: The salaries paid in the eleven reporting banks are shown by the following figures of number of outside men or officers devoting practically their entire time to Bank Relations work:

Number of Men	Range of Salaries
1	$2,000 to $ 2,499
3	2,500 " 2,999
4	3,000 " 3,499
4	3,500 " 3,999
6	4,000 " 4,499
2	4,500 " 4,999
1	6,000 " 6,499
1	7,000 " 7,499
1	10,000 - -

Thus, of the 20 outside men (other than officers) 8 received $4,000 or more, and 12 less than $4,000 per annum. It appears to your committee that it would be wise to work in the direction of using in this important work higher class men than appear to be indicated by some of the salaries paid.

It is clearly true that the effectiveness of visits depends on the character of the person who makes the visits, and a visit by an important officer of a Reserve Bank will often do more in demonstrating the Reserve Bank's interest in the member bank, and more in clearing up difficulties, than several visits by a bank clerk. A number of the Reserve Banks have followed the practice of sending out Deputy Governors, or even the Governor or Chairman, for rapid trips to visit a number of member banks, and they have always reported most favorable results.

From a study of the answers received to questionnaire from eleven banks so far reporting, the following comments are suggested:

The organization of the Bank Relations work varies greatly in the different districts. In three, namely: Atlanta, Minneapolis and San Francisco, there is no special department for the work, it being carried on by officers as their time permits. In some districts it is the chief or sole work of an officer supervising it, and in others it appears to be a secondary consideration. In some, both member and nonmember banks are visited; in others little attention is given to nonmember banks. The frequency of visits to banks varies widely, some aiming to cover all banks regularly twice a year; some once a year, and others even less.

Bankers' Visits to Reserve Banks.

Second only to a visit to the member bank itself may be ranked the entertainment of member and nonmember banks at a Reserve Bank. A guest always feels more kindly toward his host. The methods of carrying out this plan which have been followed by the Reserve Banks, are the stockholders' meeting, the small group meeting, and the less formal entertainment of visiting bankers.

Bankers' Conventions and Group Meetings:

We believe the general principle to be followed is that the Reserve Bank should be represented at every bankers' convention or group meeting in the district, whenever it is at all possible.

Correspondence.

Our most frequent contact with member banks is through correspondence, and from time to time it seems worth while to survey this correspondence to see that it is as human as possible and is conducted by people who deal intelligently with problems which come to them.

Printed Material.

There is such a large mass of printed material coming to the desk of every banker, so little of it is read, and the preparation of such material is so time-consuming that the principle of selection needs to be observed in deciding how much energy may be given to any project for the preparation of an article. Fortunately the System has many friends who write, and many sympathetic articles appear from their pens without any solicitation from the Reserve Banks. Perhaps the prime essential in this connection is that each Reserve Bank should have someone on its staff who is qualified to deal with the writing fraternity, to provide material, to discuss problems, and when necessary to take his own pen in hand. Most writers are human beings and can be reached by precisely the same methods of personal contact as have been cited above for member banks.

Schools and Colleges.

Some years ago economics was taught in small doses only in colleges; today it is taught in large doses in colleges and in small doses in high schools, preparatory schools, and in the American Institute of Banking, and similar organizations. Thousands of students who graduate from our schools and colleges each year have been inoculated with some kind of idea about the Federal Reserve System. When one considers over a term of years the influence of these people on public opinion, it becomes clear that here is a point at which the System may well spend considerable energy to see that the inoculation is properly done. The following means of influencing the teaching of banking in schools and colleges are suggested.

1. Textbooks. Officers of the System have already done much in the preparation of textbook material in the publication of the Richmond letters, and books by Harding, Goldenweiser, and Burgess.

2. Discussions in professional journals. Teachers of economics read and get many of their ideas from these journals. Here the problem is to see that there are always in the System a number of officers qualified to write acceptably and to deal with economics and writers. Every Reserve Bank should have someone who talks the language of the economist, can help in the writing of articles, and perhaps write and speak himself.

3. Visits to the Reserve Banks. A number of the Reserve Banks have had excellent results from inviting college and school classes to visit the Reserve Bank buildings, to see the Federal Reserve film, and have the operations explained by a guide. In this way many thousands of students have been given some definite conception of what the Federal Reserve System is. The Federal Reserve film has proved particularly valuable. It has also proved valuable to have some simple literature about the System to distribute.

General Public

There are two principal ways in which the Reserve Banks can maintain some contact with the general public. The first is through the press, and the problem here is not to create interest for that exists already, but to make available to writers facts and explanations as to the System's operations. The prime necessity at this point is that each Reserve Bank shall have some officer who is qualified to deal with journalists and writers, and who has authority to talk with them freely, though not for quotation.

The second means of contact with the public is through speaking at such organizations as rotary clubs, churches, etc. When one considers the small proportion of the population that can be reached through speaking, the efforts may seem futile, and yet it remains true, as it always has been and as is recognized in every political campaign, that the public address is one of the best methods of influencing public thought. The people who come to such meetings are likely to be the leaders in any community, and when an important Federal Reserve officer goes to such a meeting half of his object is achieved by his very attendance, because he has shown himself ready to take people into his confidence and has not remained aloof. For these reasons your committee believes that each Reserve Bank should have an organized plan for providing speakers for meetings and that these speakers should be, as far as possible, responsible officers of the Reserve Banks who are able to speak with authority.

The following figures show the number of speeches reported by each Reserve Bank during the year, September 1926 through August 1927.

SPEECHES MADE

	Sept.1925 to Aug. 1926	Sept.1926 to Aug. 1927
Boston	57	37
New York	71	62
Philadelphia	17	10
Cleveland	43	31
Richmond	16	8
Atlanta	5	3
Chicago	25	15
St. Louis	32	21

Minneapolis	66	52
Kansas City	25	25
Dallas	25	33
San Francisco	36	31
Total	418	328

The Program in Summary

In order to summarize the foregoing the committee suggests the adoption by this conference, and by each one of the Federal Reserve Banks, of the following minimum program of bank and public relations:

Bank and Public Relations Minimum Program

Banks.

1. At least one visit a year to each member bank.
2. Representation at bankers' conventions, or group meetings in the district, whenever possible.

Schools and Colleges.

1. Someone on the staff of each Reserve Bank who talks the language of the economist and maintains contact with schools, colleges, and professional literature.
2. A plan for visits by college classes to the Reserve Bank - including the distribution of suitable literature.

The General Public.

1. Someone on the staff of each Reserve Bank who is available for contact with journalists and writers.
2. An organized plan for providing speakers for meetings.

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