The Papers of Charles Hamlin (mss24661)

360_12_001-	Hamlin, Charles S., Scrap Book – Volume 175, FRBoard Members

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

205.001 - Hamlin Charles S
Scrap Book - Volume 175
FRBoard Members

Box 360 Folder 12

TRANSFER
CONFIDENTIAL (F.R.)

RETURN TO
FILES SECTION
DO NOT REMOVE ANY
PAPERS FROM THIS FILE

CONFIDENTIAL (F.R.)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

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

VOLUME 175

Pages 12-14
Memo from Mr. Goldenweiser to Mr. Cunningham re Gold and credit, 1922-27.

Page 27
(X-5012) Acceptances growing out of transactions involving the importation or exportation of goods.

Page 28
Memo to Mr. Hamlin from Mr. Smead attaching a statement showing the total resources of the principal foreign central banks on or about June 30, 1927.

Page 52
Earnings and Expenses of F.R. Banks.

Page 66
Statement by Advisory Council on reduction in discount rates.

Page 67
Memo to Gov. Young from Mr. Smead re Amount of gold that could be exported without causing a shortage of gold in the United States.

Page 69
Memo to F.R. Board from Mr. Goldenweiser re Gold in the United States.

Page 79
Abstract of replies of F.R. Agents to the question: The effect of changes in Federal Reserve Bank rates upon the rates charged by member banks on customers loans, including loans to banking correspondents.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

see B1

November 21, 1927

Page 12

Mr. Cunningham

Mr. Goldenweiser

Gold and credit, 1922-1927

Between July, 1922 and July, 1927, there was a net increase in our gold stock of $782,000,000. Of this amount, $388,000,000 was used to meet an increased demand for money in circulation, and $477,000,000 went into reserves of member banks. There was only a slight change in the total volume of reserve bank credit. On the basis of the growth of $477,000,000 in reserves, total loans and investments of member banks increased by about $8,600,000,000 and total loans and investments of all banks in the United States - by about $12,000,000,000. On the basis of the gold imports, the rate of expansion for member banks was about 12 to 1 and on the basis of growth in their reserves - about 18 to 1. Of the increase in loans and investments of member banks, about $5,850,000,000 was a growth in loans and $2,750,000,000 in investments. Of the loans about $3,000,000,000 was a growth in security loans and $2,850,000,000 - all other loans. Thus, less than one-third of the increase for the period was in commercial loans, and two-thirds was either in investments or in loans on securities. Total growth in deposits of member banks during the period was about $8,700,000,000, of which $3,307,000,000 was a growth in net demand deposits and $5,000,000,000 in time deposits. The proportion of time deposits to total deposits increased from 32 to 39 per cent during the period. The volume of deposits on the basis of a dollar of reserves increased from $12.30 to $13.50 during the period. That is, the reserve proportion declined from 8.1 to 7.4 per cent.

On the basis of these facts, it is obvious that there is nothing in the statement that the gold has been sterilized. On the contrary, it has been exceptionally active. As compared with conditions prevailing before the Federal reserve

VOLUME 175
PAGE 12

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

system, the expansion has been greater than was then possible owing to the reduction in reserve requirements. Thus, on June 30, 1914 the ratio of cash at commercial banks and at the Federal reserve banks to total deposits was 8.8 per cent and on June 30, 1926, the latest date for which this information is available, the ratio had declined to 6.5 per cent. If we take the ratio of gold stock in the United States to the total bank deposits plus money in the hands of the public, that ratio also declined from 12.9 per cent in 1914 to 8.3 per cent in 1926. This indicates that the establishment of the Federal reserve system has greatly increased the efficiency of the reserve dollar and has enabled the banks to expand a great deal more on a given reserve than was possible prior to 1914. The actual reduction in the reserve ratios is particularly interesting in the light of the fact that the Federal reserve system still has $1,500,000,000 of excess reserves, so that if the entire lending capacity of the system were in use the ratio of reserves to liabilities would be much smaller than it is at present.

Another point that needs to be mentioned is that the gold in this country is to a certain extent mortgaged to foreign countries, which have balances here subject to immediate withdrawal. The excess of foreign balances here over balances held by us abroad is $1,200,000,000, and a considerable part of this amount is held by foreign central banks, which use their foreign exchange balances as a part of the reserves against their own notes and deposits. Thus, not only is the gold in this country supporting the largest amount of domestic credit that gold has ever been made to carry, but at the same time it is also

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

serving as the basis of credit and currency in foreign countries. To call this extremely busy gold "sterilized" is nothing short of foolish.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

sath

Page 27

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-5012.

December 2, 1927.

SUBJECT: Acceptances growing out of transactions involving the importation or exportation of goods.

Dear Sir:

There is enclosed for your information a copy of a ruling on the above subject which was adopted by the Federal Reserve Board on November 28, 1927.

By Order of the Federal Reserve Board.

Walter L. Eddy,
Secretary.

Enclosure.

VOLUME 175
PAGE 27

TO THE GOVERNORS AND CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

RULING ADOPTED BY FEDERAL RESERVE BOARD NOVEMBER 28, 1927.

Acceptances growing out of transactions involving the importation or exportation of goods.

In a number of rulings published heretofore, the Federal Reserve Board has ruled in effect that a bill cannot be eligible for acceptance by a member bank or for rediscount or purchase by a Federal reserve bank as a banker's acceptance growing out of the importation or exportation of goods if it is accepted after the goods have reached their destination.

After careful reconsideration of this question, the Board is of the opinion that such rulings contain an unnecessarily strict interpretation of that provision of the Federal Reserve Act which authorizes member banks to accept drafts drawn upon them "which grow out of transactions involving the importation or exportation of goods" and which authorizes Federal reserve banks to rediscount such acceptances. The Board is now of the opinion that the broad language of this provision of the Act is clearly susceptible of a more liberal interpretation which would facilitate the financing of our foreign trade and particularly the sale of American goods abroad under circumstances similar to those described in the ruling published on page 638 of the Federal Reserve Bulletin for August, 1924.

The Board, therefore, rules that bankers' acceptances may properly be considered as growing out of transactions involving the importation or exportation of goods when drawn for the purpose of financing the sale and distribution on usual credit terms of imported or exported goods into the channels of trade, whether or not the bills are accepted after the physical importation or exportation has been completed.

Due care should be observed, however, to prevent a duplication of financing; and a second acceptance arising out of the same transaction or series of transactions involving the same goods should be in effect merely an extension of an already existing credit. Thus, if one acceptance is issued to finance the shipment of goods to a foreign country and a second acceptance is issued to finance the distribution of such goods into the channels of trade, the proceeds of the second acceptance should be used to retire the first acceptance. Under no circumstances should there be outstanding at any time more than one acceptance against the same goods.

All previous rulings in conflict with this ruling are hereby reversed in so far as they conflict with this ruling.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date December 3, 1927

To Mr. Hamlin

Subject: Page 28

From Mr. Smead

2—8495 G P O

In accordance with your request I am handing you herewith a statement showing the total resources of the principal foreign central banks on or about June 30, 1927.

The resources of the Federal Reserve Bank of Richmond have ranged between $197,000,000 and $249,000,000 during the current year and if we assume $220,000,000 as an average total you will note that there are 9 European, 1 Asiatic and 1 African central bank with resources in excess of those of the Richmond bank, and 17 European and 6 other central banks with reserves less than those of the Richmond Bank.

VOLUME 175
PAGE 28

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

See Dr.

Page 28

TOTAL RESOURCES OF PRINCIPAL FOREIGN CENTRAL BANKS ABOUT JUNE 30,1927

(In millions of dollars)

EUROPEAN CENTRAL BANKS

Bank	Total resources
Bank of France	2,670
State Bank of Russia	1,769
Bank of Italy	1,475
Bank of England	1,373
German Reichsbank	1,267
Bank of Spain	985
Netherlands Bank	353
National Bank of Belgium	292
Czechoslovak National Bank	257
Bank of Portugal	211
Bank of Sweden	201
National Bank of Rumania	189
Swiss National Bank	185
Austrian National Bank	180
National Bank of the Kingdom of Serbs, Croats, and Slovenes (Yugoslavia)	170
National Bank of Hungary	165
Bank of Norway	137
National Bank of Denmark	135
National Bank of Greece	132
Bank of Poland	125
Bank of Finland	63
National Bank of Bulgaria	60
Bank of Latavia	39
Bank of Esthonia	22
Bank of Lithuania	17
Bank of Danzig	10

OTHER CENTRAL BANKS

Bank	Total resources
Bank of Japan	1,231
National Bank of Egypt	344
Bank of the Republic of Uruguay	180
Bank of Java	164
South African Reserve Bank	80
Central Bank of Chile	80
Bank of the Republic of Colombia	59
Reserve Bank of Peru	27

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page 52

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS

November 1927. Total earnings of the Federal reserve banks were $147,000 more than in October though earnings were accrued for one day less in November. Earnings from purchased bills increased $125,000 and on U. S. securities $107,000, while earnings on discounted bills declined $82,000 and miscellaneous earnings $3,000.

Current expenses (exclusive of cost of Federal reserve currency) aggregated $2,116,000 as compared with $2,156,000 in the month preceding and $2,177,000 in November 1926.

Eleven months ending November 30, 1927. During the eleven months ending November 30 earnings totaled $38,499,000 as compared with $42,807,000 last year and $37,146,000 for the corresponding period in 1925.

Current expenses (exclusive of cost of Federal reserve currency) amounted to $23,552,000 during the eleven-month period, an increase of about $13,000 over the corresponding period last year.

After providing for all current expenses and dividend requirements, the Federal reserve banks on November 30 had a balance of $6,154,000 available for depreciation allowances, surplus, and franchise taxes as compared with a balance of $10,974,000 at the end of November 1926.

(St. 5603a)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. Hamlin

See Bk

CONFIDENTIAL
Not for publication

Page 52 St. 5603

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, NOVEMBER 1927.

Federal Reserve Bank	Month of November 1927									11 Months ending November 30, 1927		
	Earnings from -					Current expenses		Current net earnings		Current net earnings	Dividends accrued	Balance for reserves, surplus, franchise tax, etc.
	Discounted bills	Purchased bills	U. S. securities	Other sources	Total	Exclusive of cost of F.R. currency	Total	Amount	Ratio to paid-in capital			
									Per cent			
Boston	$103,619	$102,470	$87,888	$4,576	$298,553	$155,409	$169,664	$128,889	16.7	$808,616	$503,397	$305,219
New York	301,845	248,791	330,266	36,784	917,686	496,520	530,948	386,738	11.8	3,351,456	2,126,290	1,225,166
Philadelphia	112,299	75,705	122,060	3,542	313,606	160,207	169,085	144,521	13.3	1,056,569	715,274	341,295
Cleveland	135,596	47,304	178,871	12,636	374,407	202,289	220,857	153,550	13.4	1,409,936	762,747	647,189
Richmond	62,595	130,055	32,702	5,322	230,674	105,055	120,667	110,007	21.4	594,060	340,966	253,094
Atlanta	92,940	6,540	38,840	11,593	149,913	98,052	111,006	38,907	9.2	749,434	280,127	469,307
Chicago	134,757	114,760	251,458	38,136	539,111	282,708	304,619	234,492	16.4	1,880,408	941,499	938,909
St. Louis	52,155	12,590	106,496	3,559	174,800	108,815	119,152	55,648	12.7	803,005	291,058	511,947
Minneapolis	7,866	50,254	77,253	17,304	152,677	82,943	87,717	64,960	26.2	297,580	165,671	131,909
Kansas City	52,482	27,366	108,943	26,859	215,650	133,358	136,295	79,355	22.8	569,333	231,568	337,765
Dallas	24,809	49,081	98,100	5,114	177,104	100,441	105,123	71,981	20.5	413,311	234,947	178,364
San Francisco	113,004	17,376	125,400	8,762	264,542	190,370	196,215	68,327	8.9	1,314,552	500,551	814,001
TOTAL:												
Nov. 1927	1,193,967	882,292	1,558,277	174,187	3,808,723	2,116,167	2,271,348	1,537,375	14.2	13,248,260	7,094,095	6,154,165
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			
Nov. 1926	2,037,154	1,073,588	897,468	145,497	4,153,707	2,177,005	2,356,090	1,797,617	17.6	17,679,164	6,705,454	10,973,710

FEDERAL RESERVE BOARD
DIVISION OF BANK OPERATIONS
DECEMBER 9, 1927.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Sec Bd

(COPY)

Page 66

The Federal Advisory Council has reviewed the facts before it relative to the reduction in rates of discount at the several Federal reserve banks during the past few weeks.

The Council regrets that the Federal Reserve Board should have initiated or forced a reduction in the rate of one of the Federal reserve banks in the face of the decision of the directors of that bank to maintain a 4% rate. It does not appear to the Council that an emergency existed such as to justify the Board in departing from the usual practice of fixing rates at the Federal reserve banks even if technically authorized by law.

The Council is of the opinion that this regrettable occurrence could have been avoided if a full and frank interchange of views between the Federal Reserve Board and the Board of Directors of the Federal Reserve Bank of Chicago had been had.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

(COPY)

FEDERAL RESERVE BANK

OF NEW YORK.

November 21, 1927.

Dear Governor Young:

At the meeting of the Federal Reserve Board and the Open Market Investment Committee recently the question was raised as to how much gold could be exported from this country without forcing additional borrowing on member banks, and thus tightening money conditions. To put it another way, the question is how much gold exports could be offset by our purchases of securities. We have been making a little study of this problem, some of the results of which I am attaching herewith.

The answer appears to be that we could export not far from one billion dollars of gold, offsetting it with purchases of securities, before the reserve percentage of the Reserve System reached its legal minimum. The limiting factor, as the computation shows, is the requirement for collateral for Federal Reserve notes. Because of the fact that bills purchased and discounted now amount to only about 700 million dollars, all the rest of the collateral for Federal Reserve notes must be in the form of gold, and this ties up one billion dollars of gold against Federal Reserve notes, whereas the actual reserve requirements for these notes is only 40 per cent of $1,700 million dollars, or 680 million dollars.

The export of one billion dollars of gold would still leave us a considerable elasticity in our domestic situation because borrowing by member banks, or additional purchases of bankers acceptances, would promptly provide additional collateral which would release gold, and gold could also be absorbed from circulation. If we assume that member banks would be allowed to

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Mr. Hamlin

(COPY)

See B1

OFFICE CORRESPONDENCE

Date November 28, 1927. Page 67

To Governor Young

From Mr. Smead

Subject: Amount of gold that could be exported without causing a shortage of gold in the United States.

I have read Governor Strong's very interesting letter of November 21 regarding the amount of gold which the Federal reserve banks could lose for export purposes without causing a shortage of gold in the United States, and have examined the statements enclosed with his letter which were prepared by his Reports Division.

One of the statements indicates that the System could lose 993 millions of gold for export purposes by the purchase of a corresponding amount of United States securities, as compared with a total of 782 millions given in my memorandum of November 4. My memorandum did not make any allowance for increased note circulation and deposits, being based on the condition of the Federal reserve banks on November 2; nor did it contemplate any change in present operating methods, under which the Federal reserve banks hold in their own vaults, secured by collateral pledged with the agents, about 400 millions of unissued Federal reserve notes. The New York calculation made an emergency allowance of 235 millions for additional note circulation and deposits, but did not provide for the 400 millions of collateral required against Federal reserve notes held by the reserve banks, i.e., it provided for collateral against notes in circulation instead of notes outstanding. Neither did it provide for a 35-million 5 per cent gold redemption fund which the Federal reserve banks would have to carry against 700 millions of paper-secured notes.

If the New York memorandum had made allowance for 400 millions of collateral against unissued notes held by the reserve banks and for 35 millions in the gold redemption fund, its figure would have been reduced by 435 millions, or from 993 millions to 558 millions; while if we had made the emergency allowance of 235 millions for the additional note circulation and deposits, our figure would have been reduced from 782 to 547 millions. The two calculations are substantially reconciled as follows:

(In millions of dollars)

NEW YORK FIGURE		993
Deduct gold required as collateral for 400 millions of unissued notes held by F.R.banks	400	
Deduct 5% gold redemption fund against 700 millions of paper-secured notes	35	435
NEW YORK FIGURE adjusted		558

OUR FIGURE		782
Deduct emergency allowance for additional:		
Note circulation	200	
Deposits	35	235
OUR FIGURE adjusted		547

If gold exports were to be offset by member bank borrowings and by bill purchases, the limiting factor would be the 40 per cent reserve against note circulation (plus the 35% deposit reserve), since discounts and bill purchases would replace the gold collateral withdrawn for export. When, however, United States securities are purchased to offset gold exports, the limiting factor is the requirement for collateral, as pointed out by Governor Strong, since the

VOLUME 175
PAGE 67

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

securities are not eligible to replace the gold collateral withdrawn for export. Inasmuch as, under the law, collateral is required for the total amount of notes outstanding, not the amount in circulation only, it would seem that the figures given by New York should be reduced by 435 millions, or from 993 to 558 millions. Of course, the amount of unissued Federal reserve notes held by the Federal reserve banks could possibly be reduced from the present figure of 400 millions (the New York bank alone holds 120 millions), with a corresponding release of gold for export, although it should be noted that this amount of unissued notes is close to the average held in recent years in the reserve banks' vaults.

The second table prepared by New York is based on the assumption that 1 billion of gold is withdrawn from circulation in exchange for a like amount of Federal reserve notes, and indicates that of the 2,033 millions of gold that could then be withdrawn from the System for export purposes, 1,040 millions would have to be released by the Federal reserve banks through the discount or purchase of eligible paper, leaving a maximum of 993 millions, as in the first circulation, that could be released through the purchase of United States securities.

This table, like the preceding one, is compiled on the basis of collateral requirements against notes in circulation, rather than notes outstanding, and like the other one it makes no provision for the 5 per cent redemption fund against paper-secured notes outstanding. Furthermore, it assumes that about 1 billion dollars of gold could be withdrawn from circulation, although there is considerable doubt about the feasibility of this as only 1,068 millions of gold certificates were in circulation on November 1.

Assuming that 1 billion of gold could be drawn from circulation, but basing our calculations on notes outstanding instead of notes in circulation, and making provision for the gold redemption fund, we find that of the 2,033 millions of gold exports, 1,553 millions would have to be offset by eligible paper and only 480 millions could be offset by security purchases. The difference of 513 between our results and New York's represents the 400 millions of additional paper that is required to cover the unissued notes held in the bank's vaults and 113 millions of paper to replace the gold which would have to be carried by the banks against paper-secured notes outstanding. This difference is brought out in detail in the following comparison of New York's calculation and ours:

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

(In millions of dollars)

	NEW YORK FIGURES	OUR FIGURES
F. R. note circulation ..... (1700 + 1000 to replace gold + 200 emergency allowance)	2,900	2,900
Deposits ..... (including emergency allowance)	2,450	2,450
F. R. bank reserves after withdrawal of 1,000 from circulation	4,050	4,050
Gold exports	2,033	2,033
Reserves after exports	2,017	2,017
Reserve required:		
Against F. R. note circulation - 40%	1,160	1,160
Against deposits - 35%	857	857
Total	2,017	2,017
Collateral required against:		
Notes in circulation	2,900	--
Notes outstanding	--	3,300
Gold reserve available as collateral ..... (The New York figure includes and ours excludes 113 millions of gold required to be maintained by the banks as a redemption fund against paper-secured notes)	1,160	1,047
Eligible paper required as collateral:		
Now available	700	700
Additional requirements	1,040	1,553
Total	2,900	3,300
Gold exports	2,033	2,033
Amount to be offset by discounts and bill purchases	1,040	1,553
Amount that can be offset by security purchases	993	480

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

borrow to pay for gold exported, or assume a considerable increase in our holdings of bills, it would be possible to export another one billion dollars in addition to the first billion. This could only be done at the cost of firm money conditions as member bank borrowing was increased.

This raises, of course, the whole question as to our future policy with regard to gold. I think we would all agree that looking into the future we want to give ourselves a considerable amount of leeway; that is, we want to have sufficient gold so that it is possible at any time, by the purchase of securities, to keep money rates moderately easy when this condition seems to be required by the business situation or the world financial situation. In other words, we want in the future to be able to do exactly what we are doing this autumn.

As we look into the future, it is reasonably clear that the normal increase in business from year to year, about 4% a year, will require some additional amounts of currency and some additions to bank reserves, so that our basic need for gold reserves will increase. There are so many complicating factors like the increase in time deposits, the replacement of currency transactions by check transactions, the policy to be pursued with respect to national bank notes, etc., that it is difficult to predict how much the requirements for gold reserves will increase year by year; though it will be of value to estimate these tendencies as closely as we may.

The principal conclusions as to the present situation, it seems to me, may be summarized somewhat as follows:

1. Any large loss of gold beyond, say, a few hundred million, and the persistence of conditions indicating further losses, should raise the question as to whether our policy should not be changed so as to protect us from further large losses.

2. We have at present sufficient leeway in our gold supply so that we can well afford to lose up to at least two or three hundred million further, without retarding or hampering this country's business.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

3. Our position is sufficiently elastic so that we can at least well afford to allow the world's output of gold to go to other countries for many years to come.

4. The problem of the world's future gold supply and the gold policies of different countries is one to which we should give most careful continuous study, with a view to avoiding disturbance by a capricious gold policy on the part of any country. There is plenty of gold in the world if it is intelligently dealt with.

We are making some further studies along these lines, the results of hi which I hope to send you from time to time.

Very truly yours,

BENJ.STRONG
Governor.

Honorable Roy A. Young,
Governor, Federal Reserve Board,
Washington, D.C.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

(Copy)

Federal Reserve Bank
of New York.

OFFICE CORRESPONDENCE

Date November 16, 1927.

To Dr. Burgess

From H. V. Roelse

Subject: Amount of gold that could be exported without causing a shortage of gold in the United States.

The amount of gold that could be exported without seriously affecting money conditions in this country appears to be a little over 850 million dollars. This figure is arrived at as follows:

Total Reserves, all Federal Reserve Banks			$3,050,000,000*
Reserve requirements, all F. R. Banks			
Security for note circulation,			
Present note circulation	$1,700,000,000		
Less bills and discounted notes available as collateral . .	700,000,000		
Gold required as collateral for note circulation		$1,000,000,000	
Reserve against deposits . . . . . . (35% of $2,350,000,000)		822,000,000	
Emergency allowance for additional note circulation (100%)		200,000,000	
Emergency allowance for reserve against additional deposits (35% of $100,000,000)#		35,000,000	
Total gold requirements			2,057,000,000
Surplus available for export			$ 993,000,000

To avoid drawing down the reserve deposits of member banks, $993,000,000 of securities would have to be purchased by the Reserve Banks to offset the gold exports.

* After allowance for earmarking now in progress, and month-end currency circulation.

\# The $100,000,000 to be provided by security purchases by the F. R. System.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The emergency allowances indicated above should provide for any ordinary fluctuation in demand.

A considerable additional amount (about one billion dollars) might be exported before the reserves of the Federal Reserve System fell to the legal minimum, through the withdrawal of gold from circulation, but only in the event of heavy borrowing at the Reserve Banks which would produce a money situation like that of late 1919. This could be accomplished as follows:

Reserves of all F. R. Banks

Reserves after withdrawal of $1,000,000,000 from circulation . .	$4,050,000,000
Gold exports	2,033,000,000
Reserves after exports	2,017,000,000

Required Reserves

Collateral required for note circulation		
Necessary note circulation	$2,900,000,000	
($1,700,000,000 plus $1,000,000,000 . . to replace gold, and $200,000,000 emergency allowance)		
Less bills and discounted notes available	1,740,000,000	
(Additional discounting to the amount of $1,040,000,000 would be required.)		
Gold reserve - 40% minimum - required as collateral for note circulation		$1,160,000,000
Reserve against deposits (35% of $2,650,000,000 which includes emergency allowance)		857,000,000
Total required reserve		$2,017,000,000

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Sec Bk

CONFIDENTIAL

December 12, 1927

Page 69

To: Federal Reserve Board

From: Mr. Goldenweiser

Subject: Gold in the United States

In accordance with the Board's resolution of November 18, there is transmitted herewith a table showing for quarterly dates beginning with January, 1921 the total stock of monetary gold in the United States, and the amount held by the Treasury, by the Federal reserve banks, and in circulation; also the amount held earmarked for foreign account. Changes in these items for each quarter and net gold imports or exports are shown in a separate table.

Total monetary gold stock of the United States on January 1, 1921 was $2,910,000,000 and on December 1, 1927 - $4,451,000,000, an increase for the period of seven years less one month of $1,541,000,000. Of this increase, $742,000,000 was added to the reserves of the Federal reserve banks, $788,000,000 was paid out into circulation, and the additional $11,000,000 represents an increase in the holdings of the Treasury. Of the gold in circulation on December 1, 1927, $1,095,000,000 were gold certificates and $383,000,000 gold coin.

Gold certificates and coin in circulation

Gold certificates in circulation reached the lowest point in April, 1922, when the total was only $172,000,000 and since that time they have increased by over $900,000,000. As is well known, this increase reflects the policy of the Federal reserve banks to pay out gold certificates in meeting the demand of member banks for currency. This policy began about July, 1922 and continued for about two years until July, 1925. Since that time changes in gold certificates in circulation have been relatively slight, the reserve banks' policy having been to maintain their volume at

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

about the same level. The payment out of gold certificates into circulation has attracted a good deal of attention and is frequently mentioned as one of the methods by which the system has sterilized its gold. It need hardly be pointed out here that this statement is not well founded. The gold paid out into circulation has merely taken the place of an equal amount of Federal reserve notes and has not in any way changed the volume of indebtedness of member banks to the Federal reserve banks, or influenced the general credit situation. It has not even materially changed the reserve ratio of the reserve banks, because when gold is paid out and the reserves are decreased by that amount, an equivalent amount of Federal reserve notes is taken in, and the banks' liabilities are thus reduced correspondingly, so that the reserve ratio changes but little. If the Federal reserve banks should withdraw a billion dollars of gold from circulation at the present time and pay out an equivalent amount of Federal reserve notes, the reserve ratio would only rise from about 75 to 80 per cent. It is true, however, that the excess reserves of the Federal reserve banks would increase by about $600,000,000, because only $400,000,000 of the gold withdrawn would be required as reserves against the additional note circulation, and the remaining $600,000,000 would be surplus gold. In brief, the paying out of gold has diminished the total amount of gold held by the Federal reserve banks without having had any effect on the general credit situation and with only a slight effect on the reserve position of the Federal reserve banks.

The amount of gold coin in circulation, about $383,000,000 on December 1, contains a considerable element of uncertainty, because much of this coin has no doubt been carried abroad in the pockets of travelers or melted down by jewelers and others. The gold held in the Treasury has changed relatively little. About $154,000,000 of it represents gold held as reserves against

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

United States notes, the remainder being in the general fund of the Treasury. The figures in the table exclude the gold in the Federal reserve banks' redemption funds, which the Treasury statement includes in the general fund.

Earmarked gold and total stock of monetary gold

Earmarked gold is an item which was of relatively small importance until the latter part of 1924 and which has increased chiefly during the present year. Changes in it are now of such magnitude that they cannot be overlooked in the consideration of changes in the total monetary gold stock of the United States. The figure of this gold stock, as shown in this table, has been carefully revised and corrected, not only to exclude the entire amount of earmarked gold, as was not previously done by the Treasury, but also to correct a number of inaccuracies and discrepancies in the circulation statement. Changes in the total gold stock are the most significant figures in the table, because it is these changes that affect the credit situation. These changes are caused for the most part by imports or exports of gold. For the period from January 1, 1921 to December 1, 1927, net gold imports into the United States were $1,494,000,000; the increase in earmarked gold during the same period was $169,000,000, so that changes in the gold monetary stock for the period from these two sources was $1,325,000,000. As a matter of fact, the increase in the stock of gold was considerably larger, namely, $1,541,000,000. The additional increase in the gold stock represents the excess of domestic production over domestic consumption by the arts, as well as a certain amount of gold that comes into the United States surreptitiously from Mexico. There is also some gold that comes from Canada in the form of ore that is not primarily gold ore and is not, therefore, included in gold imports.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

GOLD HOLDINGS OF THE UNITED STATES

(In millions of dollars)

Date	Monetary gold stock of the United States						Gold coin and bullion held earmarked for foreign account
	Total	In U. S. Treasury 1/	Gold reserves of F.R.banks	In circulation			
				Total	Gold certificates	Gold coin	
1921:							
Jan. 1	2,910	157	2,063	690	214	476	22
Apr. 1	3,084	192	2,222	670	211	459	20
July 1	3,275	158	2,468	649	201	448	23
Oct. 1	3,516	164	2,728	624	186	438	8
1922:							
Jan. 1	3,660	167	2,875	618	179	439	--
Apr. 1	3,760	187	2,975	598	172	426	--
July 1	3,785	174	3,022	589	173	416	--
Oct. 1	3,873	171	3,077	625	215	410	--
1923:							
Jan. 1	3,929	156	3,047	726	303	423	4
Apr. 1	3,970	181	3,060	729	319	410	1
July 1	4,050	165	3,095	790	386	404	--
Oct. 1	4,136	159	3,113	864	466	398	1
1924:							
Jan. 1	4,244	170	3,080	994	584	410	3
Apr. 1	4,364	184	3,095	1,085	687	398	5
July 1	4,488	166	3,128	1,194	801	393	2
Oct. 1	4,511	176	3,047	1,288	898	390	26
1925:							
Jan. 1	4,499	183	2,937	1,379	970	409	45
Apr. 1	4,346	173	2,848	1,325	915	410	54
July 1	4,365	168	2,790	1,407	1,005	402	22
Oct. 1	4,382	173	2,760	1,449	1,053	396	16
1926:							
Jan. 1	4,399	171	2,701	1,527	1,113	414	13
Apr. 1	4,442	188	2,767	1,487	1,090	397	53
July 1	4,447	163	2,835	1,449	1,057	392	54
Oct. 1	4,466	184	2,793	1,489	1,101	388	53
1927:							
Jan. 1	4,492	172	2,819	1,501	1,092	409	39
Apr. 1	4,597	178	3,010	1,409	1,019	390	18
July 1	4,587	174	2/3,021	1,392	1,007	385	115
Oct. 1	4,571	166	2,964	1,441	1,061	380	126
Dec. 1	4,451	168	2,805	1,478	1,095	383	191

1/ Exclusive of gold held in trust against gold certificates and gold held for account of Federal reserve banks and agents.

2/ Including $23,000,000 of gold held abroad and not counted as reserves.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page 69

SUMMARY OF CHANGES IN GOLD STOCK, BY YEARS

(In millions of dollars)

Year	In U. S. Treasury and F.R. banks	In circulation	Total	Gains or losses (-) to gold stock through imports, exports, and changes in earmarked gold: Total	Through imports or exports	Through changes in earmarked gold
1921	822	- 72	750	689	667	22
1922	161	108	269	235	239	- 4
1923	47	268	315	295	294	1
1924	-130	385	255	215	257	-42
1925	-248	148	-100	-102	-134	32
1926	119	-26	93	72	98	-26
1927 (11 mo.)	-18	-23	-41	-79	73 1/	-152
Total for period	753	788	1,541	1,325	1,494	-169

1/ Figures for November preliminary

Page 69

December 15, 1927.

Ser B11

Page 79

Abstract of Replies of Federal Reserve Agents to the Question:

The Effect of Changes in Federal Reserve Bank Rates upon the Rates Charged by Member Banks on Customers Loans, Including Loans to Banking Correspondents.

----

1. Federal Reserve Agent Curtiss of Boston:

The reduction was reflected by similar reductions in money rates to customers only in those banks which are sensitive to open market conditions. Thus in the first and second grade of Boston banks, and in some of the larger country banks, such as Providence and New Haven and a few other centers which are in close touch with the New York money market, the rates to customers declined promptly.

In July the going rate for prime commercial loans to competitive customers at the banks was 4½%, but in August it dropped to 4¼% with some shading to 4%, and by September 4% was quite common.

Similarly, the rate charged by the larger Boston banks on loans made to their correspondent banks in the country was 4½% in July, and 4% following the reduction in the Federal Reserve rate. As a rule, the spread in this rate is pretty constant at ½% above the Federal Reserve discount rate.

In the third grade of Boston banks, quotations for commercial money to customers has been quoted at 4½% to 6% ever since May, and no perceptible change has taken place since the reduction in the discount rate so far as may be measured from the data obtainable on the rediscount applications of these banks.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Outside of Boston, in the country districts not closely in touch with the money markets, the rate has been pretty generally 6% for a couple of years, and no change is discernible during the last few weeks.

The demand for commercial money has not been greatly stimulated by the reduction in discount rates.

The outstanding volume of brokers' commercial paper has shown a gradual and practically continuous decline in recent years except for seasonal changes ..... The demand for this paper by the banks has tended to increase in recent weeks despite the fact that the yield has declined since the reduction in the discount rate.

Brokers' commercial paper, which was quoted generally at 4½% in July, is now plentiful at 4% with occasional shading to 3¾%.

The effect of the reduction in discount rates has also been reflected in the rates for stock exchange funds which have declined, while the volume of such loans outstanding has risen sharply since August 5th.

2. Federal Reserve Agent McGarrah of New York.

The money market adjusts itself at once when the Federal Reserve bank rate is raised or lowered, - acceptances, drafts, bills and the call money market. So also as to customers commercial loans. In the smaller cities, like Buffalo, the change is practically without influence upon customers' rates. Only one change at Buffalo could

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

possibly be ascribed to the rediscount rate, and here a change was made by only one of the three reporting banks. The rate on interbank loans is influenced but slightly.

In New York City a change in the rediscount rate seems to have a fairly consistent though slight effect upon customers rates on commercial loans, some banks charging ¼% less, others making no change. On only one occasion did one of the five reporting banks make the full 1/2% change on some of its loans. After the recent reduction, two banks lowered their rate ¼%, while three made no change at all. This applies also to the time rate. In August, 1927, only a single bank made any change. The rate on loans secured by warehouse receipts does not seem to be influenced by rediscount changes.

3. Federal Reserve Agent Austin of Philadelphia.

We sent a questionnaire to all our banks, practically all of which replied that they did not feel any effect from our rate changes.

700 replies were received. 9% reported they had found it necessary to reduce rates in some instances, which probably means that the strongest customers had reaped the benefit. A few banks had lowered rates on adjusted service certificates in accordance with that provision of the law making it obligatory that the rate on such loans shall not be more than 2% above the Federal Reserve rates. Some banks, particularly in Philadelphia, had lowered rates to correspondent banks. 60% of the banks in Philadelphia from which replies were received, had lowered rates, also

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

14% in other cities of more than 5,000 population and only 5% of the others.

In addition to those banks which lowered rates either voluntarily or upon request, 6% of the total number had received one or more requests for lower rates, the requests being based upon our reduction in rates.

We do not have the data to state positively the effect of an advance of Federal Reserve discount rates. Our charts show that in two reductions which we made in our rates, we preceded a decline in the Philadelphia bank rate for customers paper and we followed the advance in that rate in the one advance we made in our rate.

The recent reduction was made when the open market rate was on a parity with our rate, and since then the rates on commercial paper have strengthened rather than declined with our rate. Our advance in rates in November, 1925, was made when the open market rate for paper was considerably above our rate. Our change in rate was not immediately followed by any change in the rate for commercial paper, but subsequently it fluctuated quite widely, coming down finally to the level of our discount rate shortly before the recent reduction of our rate. I will say that the bank in Philadelphia did, however, lower their rate that 1% since that one change was made.

4. Federal Reserve Agent DeCamp of Cleveland.

In the main, the benefit of the reduction has not been passed on to the customer. On certain paper, where the larger city banks in this district are in competition with New York and Chicago banks, there has been a shading of rates, but the "run-of-mine" customer is paying the same rate

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

as he paid before the Federal Reserve bank rate was reduced. No evidence that the rate in country banks has been reduced. Customers rates are not increased when the Federal Reserve discount rate is increased, except in so far as the rates apply to strictly prime paper in the bigger centers. Increases or decreases in the Federal Reserve bank rate, however, do affect rates at which paper is offered in the open market, and at which high-class commercial borrowers obtain loans. Borrowers rates cannot be shaded much in view of the 4% rate paid on savings and time deposits.

5. Federal Reserve Agent Hoxton of Richmond.

The reduction in the Federal Reserve rate has had very little, if any, effect upon the rates charged by the member banks to their customers, except in Baltimore, Washington, and Richmond. Baltimore comes directly into competition with New York and Philadelphia, and many borrowers in Baltimore have credit in the larger cities which enables them to obtain more favorable rates at home. This is true to some extent in Washington and Richmond. Of course, the Federal Reserve rate is promptly reflected in the rate at which outside paper may be bought regardless of the location of the purchasing bank.

Country banks in this district do not, as a general practice, pass on to their customers the benefit of cheap money unless and until they are forced to do so, ... Reasonable money rates have had their effect upon those country banks which have accounts of individuals, firms and corporations who could obtain credit in the larger cities as well as at home. This class is able, therefore, to obtain the best rate on its borrowings.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

The home bank is forced to meet competition in such cases whenever possible. Those in rural sections have been brought in closer touch with larger towns and cities, and they bring pressure on the home banks, and whenever possible, the smaller bank meets the competition. The principal obstacle in the way of full benefits of Federal Reserve rediscount rates reaching the rural sections is the absolute need of relatively large gross income to cover the overhead expenses of the smaller banks. Many banks have so little business that they could not exist if the lending rate were not maintained at or above the present level ..... In this district there are many banks which were organized for purposes other than to meet the actual legitimate demands for banks ..... Instead of accepting smaller rates on their loans and making a corresponding adjustment in the operating costs of the banks, too many banks seek out loans which bear high rates of interest or which are subject to a heavy discount rate, apparently not realizing that the credit risk is very much greater......

Replies from 80 bankers:

The great majority replied that the district was a 6% district, and that it remains so, without reference to the Federal Reserve discount rate. Many banks felt forced by competition to pay a higher rate of interest on deposits, and this rate governs their rate on loans. A few stated that fluctuations in the Federal Reserve rate were passed on to their customers, but these replies were, with one exception, from large banks in cities or sizeable towns. They all stated that the Federal Reserve cut did not tend to make credit conditions easier for agriculture, business and commerce, except that they were forced to quote a lower rate to those big customers who could demand credit from banks away from home. One banker replied that

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

as the reduction in the Federal Reserve rate is at once broadcasted through the newspapers, its effect is almost immediately felt by the banker from those who are in a position to expect lower rates when they are justifiable. Prior to the present rate of 3½%, a lower rate than 6% was practically unthought of by any of our customers. During the past several months we have been obliged to offer them accommodations at as low a rate as 4¾%.

Others answered the question that while they did not pass on the reduction, it was a benefit to agriculture and business because it made the member bank inclined to be more liberal in commitments for agricultural and business purposes.

Another banker in South Carolina admitted that he made rate concessions only to those who could get a low rate elsewhere. Another banker stated that before the Federal Reserve reduction, the larger banks crippled by a lack of demand in their own territory, had begun to invade our territory, seeking borrowers among our preferred class of clients, and these banks have been much encouraged by the low discount rate now in force.

5% on deposits is very common in our district, and occasionally 6%. All the banks thought that in the future customers might get the benefit of lower rediscount rates. One banker admitted that when the Federal Reserve rate was 4% he charged his customers 7%. Now that the rate is reduced to 3½% he is making them pay 6½%.

6. Federal Reserve Agent Newton of Atlanta.

The banks in reserve cities state no effect. Several of the other banks stated reductions had been made, particularly in loans on commodities

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

and to country correspondents. No direct benefit to the farmers, except that there has been some reduction in rates made to cooperative marketing associations, and in this way producers have benefitted by the reduction. Our member banks have not complained because of the reduction, but I think in time they will be affected by it.

7. Federal Reserve Agent Heath of Chicago.

The average rate earned by 10 of the larger loop banks in September was 4.85% as against 4.80% in August..... The largest bank in Chicago reports that a considerable number of their largest customers have called on them to reduce the rate on their loans, and that they have been compelled to do this in a number of instances, although they have been able to maintain the old rates on most of their notes because of the continued demand.

The second largest bank reports that commercial rates have been well maintained at 4½% and upwards, this minimum rate only being shaded in a few exceptional instances, usually by reason of the competition of Eastern banks. Since the reduction in the Federal Reserve rate, we have continued our rates charged to our customers at the same quotations, without, however, the usual seasonal strength and normal increase. On the contrary, the tendency has been toward some increase in the number of loans which have been made under the quoted rates. This evidence of weakness in rates is not inherent in our Middle West situation, nor would have been expected and demanded by our customers, nor was necessary in the operation of their business. In our opinion, it has been occasioned by the competitive rates offered by Eastern banks due to the sentimental

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

effect of the Federal Reserve rate reduction there, and also to the large amount of foreign money now on deposit in New York.

Such loans as have been made under the quoted rates have been to large corporations, usually with eastern bank accounts and the loans to individuals and the general local business houses have not been affected in this respect.

Neither do we believe that the individual farmers and merchants in the rural communities have had their rates of interest decreased.

The third largest bank reports: (a) Quite a number of our customers have brought the cut in Federal Reserve rates to our attention, and in some instances we have had to accept reductions, principally from out-of-town concerns who compelled us to meet eastern rates. (b) The lowering of Federal Reserve rates has been used as an argument for lower rates. We have been, however, able to hold rates fairly well except where we have had to meet competition. The increase in our loans over a year ago has helped our arguments considerably. (c) As a general rule, our large borrowers maintaining substantial accounts have indicated to us, and in some instances have insisted, that rates to them should be reduced, and have advanced as reasons the reduction in the Chicago Federal Reserve bank rate and the low call money rate. We have been obliged in many instances to reduce $\frac{1}{4}$ of 1% to these borrowers.

We have been able to maintain our rates fairly well on loans other than those referred to above. (d). The cut in the Federal Reserve rate has brought in quite a number of inquiries for lower rates, and in a few instances we have been obliged to shade them. In most instances, however,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

we have been able to maintain our rates based on the heavy counter demand which we have had for funds, which has from time to time necessitated our going into the Federal Reserve bank as borrowers ourselves. (e) A few customers have intimated that they should obtain a lower rate on account of the Federal Reserve rate reduction, but with very few exceptions we have been able to obtain our counter rate. Ordinarily, on account of seasonal demands, we could obtain slightly better rates had not the Federal Reserve reduced their rate. (f) A few banks, principally those with inadequate balances, have stated that they should obtain a low rate since we could borrow money at the Federal Reserve at 3½%.

One of the larger trust companies of Chicago reports that there was no general effect on rates in their bank as a result of the reduction of the Federal Reserve rediscount rate reduction. In general, the counter rate remains the same as before. Fractionally, in some rate instances to the extent of ¼%, important customers have contended for a lower rate than was previously given them, and as a matter of policy their contention has been favorably met. The aggregate of these items would represent but a small proportion of our loans, and ¼ of 1% would be the maximum reduction in any case.

2. Reserve Cities.

Indianapolis:

Our largest bank writes that their rate to customers has not been changed to any noticeable extent. The second largest bank: - The reduction has had considerable influence on our customers; a number of them demanded a lower rate, and of course we acquiesced with some of them. This reduction has cost this bank considerable, making it difficult for us

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

to make any money. The third bank: The reduction has only operated to give customers who figure closely an excuse or basis for requesting concessions in our rates.

Detroit:

The largest bank: Has had no effect whatever upon the rate charged to customers of this bank. The largest national bank: The average rates during the past week as compared with August, are .21 per cent lower. As applied to all of our outstanding loans compared for the same periods, we find a reduction of .10 per cent. No appreciable effect upon the local demand for funds. Not prepared to say whether lowering of rediscount rate has brought about the change in rates indicated.

Milwaukee:

Reduction has immediate sympathetic effect on our rate. Our average rate has decreased about ¼ of 1%, and will probably go lower as the season advances.

Des Moines:

No appreciable change in our rates. Lowered in a few instances for customers who also have accounts in Chicago and New York.

Another bank: Has not affected us in any way materially.

Sioux City, Iowa:

No effect on rates. Another bank: No effect, except that feed lot loans show some effect through competition. Our rate has been reduced about 1% on paper of this class.

Cedar Rapids, Iowa:

No effect.

Grand Rapids, Mich:

No effect.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

3. Replies from a selected list of 75 or more country banks: No effect, with three exceptions. One bank in a town of 10,000: We give our customers the benefit of the reduction. The lowering of the Federal Reserve rate has been of some material benefit to both city and farmer customers.

Mr. Heath intimates that the above is not correct; that the bank is charging and has been charging 6%.

8. Federal Reserve Agent Martin of St. Louis.

No effect upon customers rates. The slight lowering of interest rates to customers would doubtless have happened regardless of the Federal Reserve rate. This is true of banks in the large cities, and of numerous country banks.

The Federal Reserve change had no effect on Memphis, Louisville, or Little Rock, or any of the other of our larger cities. It had an effect at St. Louis. We changed our rate on August 4th, and the rates show a decrease between July 15th and October 15th. The universal report as to country banks is that there have been no changes in the rates paid by customers due to the change in the Federal Reserve rate.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

9. Federal Reserve Agent Mitchell of Minneapolis.

The effect of a change in the Federal Reserve bank rate in the Minneapolis district is that it gives the borrower an opportunity to call the attention of the member bank, in the larger cities in particular, to the fact that there has been a change in the Federal Reserve bank rate, and the borrower feels that he should derive some benefit in the way of a reduction. If the rate is advanced the borrower does not call attention to the fact.

The city member bank will be largely influenced by what local competitive banks will be inclined to do, and also by what action would be taken by eastern member banks that are loaning in the western sections.

Relatively few borrowers are affected in the cities by a reduction in the Federal Reserve bank rate. If a Federal Reserve bank rate is increased it automatically means an increase by the city member bank in its rate to such customers as would be affected by a decrease in the rate. A lowering or raising of the rate does not affect the rate charged by the country banker on small loans.

The effect on loans to banking correspondents by city member banks is to give the borrower, in some instances, the benefit of the reduction, but not in every case.

10. Federal Reserve Agent McClure of Kansas City.

Customers rates are lower than for many years. Impossible to say positively that these lower rates were brought about by the reduction in the Federal Reserve rate on July 28th. That it had a tendency to lower

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

rates cannot be denied. Direct loans on feeder cattle are at least 1% less than in the past. The prevailing rate heretofore charged by city banks on paper rediscounted from their country correspondents was almost universally 6%. Now much of that paper is being taken at 5 to 5½%. The reduction in the Federal Reserve rate gave confidence to all the banks in the district that they could safely expand their loans, etc. The lowering of the Federal Reserve rate has stimulated the markets, especially on live stock. One of the largest banks in Kansas City: Rates of interest on customers loans of all kinds have been lower the last three months. Rates on cattle loans are, on an average, 1% lower. Up to July 1st, the rate charged to country banks by their city correspondents was almost universally 6%. Now a large percentage of these loans is made at 5%, with an average of not over 5½%. Perhaps some of this lower interest might have come about on account of the easier money market, but in my opinion the change in the Federal Reserve bank rate had much to do with it.

11. Federal Reserve Agent Walsh of Dallas.

Replies from banks: The cut was made too late to show effect on country banks, as the loans had been made earlier in the season. We charged all of them 5% which was 1% higher than the Federal Reserve rate, and we did not have a single objection. As to rates made to individual customers, there are some who have insisted that their rates be cut and in instances it has been done. The Federal Reserve rate should be around 4½ to 5%. No one would be seriously hurt by a difference of 2½ or 1% on the money they borrow. Other banks: The change does not, except in a very few cases, have any weight on the rates charged by member banks in this district on

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

customers loans, including bank loans. It does have an instantaneous effect upon brokers rates, thereby forcing southern banks who are for a short time only each year in the market for commercial paper to accept these low rates. As the country becomes older, changing the Federal Reserve rate will have some effect locally, but now it does not to any appreciable extent.

Another bank: Has had no appreciable effect upon open market transactions. The reduction in the Federal Reserve rate has been beneficial.

Another bank: No appreciable effect. Rates already down to the irreducible minimum. No effect upon the country banks, as the spread is so large, - between 3½ or 4% Federal Reserve rate, and an 8 to 10% customers rate. Speaking generally, the reduction has had little effect except in a few instances.

12. Federal Reserve Agent Newton of San Francisco.

While a low Federal Reserve discount rate undoubtedly has an influence on the lending rates to borrowers from member banks, it is not immediate, and can only become effective, if at all, after a continuous period of low rates.

Answering the specific question, I would say that as yet it has had no noticeable effect. Replies to letters addressed to bankers are unanimously to the effect that the recent reduction in Federal Reserve discount rates has not been passed on to the borrowing customers of the member banks.

Governor Young states that this evidence tends to show that the 3½% rate was opposed largely by the big banks, their complaint being

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

that they would have to meet that rate. The replies now in may lead one to believe that they reluctantly admit that it did have some effect, not with all of their customers but with some of them...... The banks of the Chicago district apparently preferred stock exchange loans at 4 or 4½% to meeting the demands of their own customers. Now that the stock exchange rate has gone to 3½%, there is little demand from the West for commercial paper at 4%, so that I saw it go down to 3½, 3¾ and 3½ per cent the other day, in some cases, and it is interesting to watch that shifting all the way through. Therefore the rate must have had some psychological effect. I do not think there is any question about that. Easier money, of course, had the main effect on the situation, I think. Minneapolis had to meet the rate with the big borrowers, and they met it much more quickly than Chicago and some of the other points. Some of the borrowers were actually going to New York, and as soon as they started Minneapolis started to meet the rate.

Governor Young states that even though this discussion may bring out the fact that the rediscount rate had a certain effect on business, even extending to the agriculture and live stock industries, that is rather a dangerous statement for the System to make publicly, as you cannot tell when it may be necessary to veer around some day and raise the rate. It is all right for our own information, but I think that is where it ought to stop.

****

Discussion of the Above Before the
Federal Reserve Board.

Chairman Martin states that the statements of the twelve Chairmen

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Page 79

show about as follows:

The change in the discount rate caused immediate effect in New York, less immediate effect, but comparatively quick action, in the large centers, particularly those centers in which is located the parent bank of the Federal Reserve bank. It resulted in a slight decrease in rate.

So far as the smaller banks were concerned, in the majority of instances, it showed that there was very little effect caused by the change in rate as to customers rates.

Kansas City reports quite a change. For instance, in cattle feeders and cattle loans. On the whole, however, the change in the rate was not as apparent in the rural districts as in the large centers.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis