The Papers of Charles Hamlin (mss24661)

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

VOLUME 176

Pages 4 & 8
Letter to Mr. Case from Gov. Young re Open Market Committee.

Page 6
Letter from Mr. Harrison to Gov. Young.

Page 9
Memo to Mr. Hamlin from Mr. Smead re Income of F.R. Banks classified as to source, compared with expense and dividend payments.

Page 10
Memo to Mr. Eddy from Mr. Smead re Bank Suspensions - Year 1927.

Page 27
Memo for the Open Market Inv. Committee - January 12, 1928.

Page 29
Report of the Sec'y to the Open Market Inv. Committee meeting held in Washington, January 12, 1928.

Page 66
Memo to Mr. Hamlin from Mr. McClelland re changes in discount rate of the F.R. Bk. of N. Y. made during the years 1925, 1926, and 1927.

Page 71
Letter from Mr. Goldenweiser to Mr. Curtiss.

Page 101
Memo to Mr. Hamlin from Mr. Smead re Domestic acceptances.

Page 117
The Reserve Banks, Gold and Money Rates by Mr. Goldenweiser.

Page 127
Memo for directors of the F.R. Bk. of Richmond by Geo. J. Seay, re Responsibility of the Federal Reserve System for the Present condition of credit inflation.

Mkt - Jan 12, 28 Page 4H

The Committee has considered the memorandum submitted by the Chairman and has reviewed the program adopted by the committee on November 1, 1927 and approved by the Federal Reserve Board. Thereupon, the following conclusions were adopted:

1. The object of the policy adopted on November 1 has been accomplished.

2. The Committee program should now work towards somewhat firmer money conditions as far as necessary to check unduly rapid further increases in the volume of credit.

3. In order to accomplish this program the committee would expect to sell further amounts of Government securities and if necessary to deal with gold movements in such manner as necessary to carry out the program.

As outlined in the program of November 1, the committee would expect to be charged with the execution of this program for the account of those reserve banks which approve and participate and would hope this program might guide the committee for the present, unless a change of conditions makes further review desirable.

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Sec. RH

January 12, 1928.

Dear Mr. Case:

At the meeting of the Board this morning, after the members of the Open Market Committee had retired, the Board unanimously adopted the following motion:

"The Federal Reserve Board authorizes the Open Market Investment Committee during the next two months to make sales of Government securities from time to time with accompanying authority temporarily to purchase such securities should developments not now in sight require such action."

Very truly yours,

R. A. Young,
Governor.

Mr. J. H. Case, Acting Chairman,
Open Market Investment Committee,
c/o Federal Reserve Bank,
New York, N. Y.

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See B11

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C O P Y

(From letter of Mr. George L. Harrison
Deputy Governor)

FEDERAL RESERVE BANK
OF NEW YORK

January 10, 1928.

Dear Governor Young:

While you no doubt have all the figures available in your records at the Board, nevertheless I thought it might be convenient briefly to review the gold movements during the year 1927 and for the first ten days of this month. With that in mind, I am enclosing a table showing by countries the total imports and exports as well as earmarks and releases for the year 1927. From this table you will observe that aggregate shipments to the United States, most of which were in the early months of the year, were approximately $207,600,000, whereas the total exports from the United States were $199,600,000, of which the greater part were in the latter part of the year. If, therefore, we consider only the actual movements of gold, the net gain to our gold stock was $8,000,000, but as an offset, it will be observed that net earmarks during the year amounted to $160,600,000, making a net loss through exports and earmarks amounting to $152,600,000 for the whole year. These figures are the best that we have available and must be subject to some slight adjustment when the final figures for the whole country for the month of December are received..........

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PAGE 6

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Page 9 sec. Bk

Date January 10, 1928.

To Mr. Hamlin

From Mr. Smead

Subject: Income of Federal reserve banks, classified as to source, compared with expense and dividend payments.

2—9495 GPO

In accordance with your request we have prepared the attached tables showing the relationship existing between earnings on the several classes of earning assets and expenses and dividend payments of the Federal reserve banks, singly and combined, since their organization. The earnings of some of the Federal reserve banks were not sufficient to cover all accrued dividends until 1918, and consequently in compiling the attached tables, we have combined the figures for the period 1914-1918, inclusive, but beginning with 1919 have shown figures for each year.

For the System as a whole the ratio of earnings on discounted bills to total expenses and dividend requirements has no particular significance, so far as the ability of the Federal reserve banks to cover their expense and dividend requirements is concerned, since the amount of earnings on discounted bills is governed very largely by the extent to which the system engages in open-market operations. When it comes to individual Federal reserve banks, however, and especially those in the agricultural sections of the South and the Middle West, the ratios of earnings on discounted bills to total expense and dividend requirements are more or less indicative of local requirements for Federal reserve credit. It is interesting to note, however, that earnings of all Federal reserve banks on discounted bills for the period from their organization to the end of 1927 amounted to about 1-1/3 times expense and dividend requirements, notwithstanding the fact that the System has, especially in recent years, carried a substantial volume of acceptances and United States securities.

During the war and early post-war period, earnings on discounted bills were much in excess of total expense and dividend requirements, while since that time they have amounted to only about one-half of expense and dividend requirements. The ratios for the different banks naturally vary considerably, the lowest ratio for 1927, that of Minneapolis, being 10½ per cent, and the highest, that for Atlanta, 73.7 per cent.

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PAGE 9

GROSS INCOME ACCORDING TO SOURCE, AND EXPENSE AND DIVIDEND PAYMENTS, OF THE FEDERAL RESERVE BANKS, 1914-1927.

(In thousands of dollars)

Federal Reserve Bank	Gross Income					Expenses and dividends	Ratio to expense and dividend payments of -				
	Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Total		Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Gross Income
							(Per cent)				
ALL F. R. BANKS COMBINED	529,656	108,964	105,047	31,420	775,087	401,527	131.9	27.1	26.2	7.8	193.0
Boston	34,287	10,655	5,931	1,650	52,523	27,518	124.6	38.7	21.6	6.0	190.9
New York	161,282	32,438	26,648	5,597	225,965	94,951	169.8	34.1	28.1	5.9	237.9
Philadelphia	40,528	6,540	8,028	1,706	56,802	29,582	137.0	22.1	27.1	5.8	192.0
Cleveland	39,215	12,593	10,995	2,791	65,594	37,563	104.4	33.5	29.3	7.4	174.6
Richmond	30,981	2,959	2,012	1,652	37,604	20,630	150.2	14.3	9.8	8.0	182.3
Atlanta	28,763	4,350	2,622	1,178	36,913	19,594	146.8	22.2	13.4	6.0	188.4
Chicago	78,239	13,427	14,855	5,051	111,572	55,179	141.8	24.3	26.9	9.2	202.2
St. Louis	24,041	3,139	5,532	1,407	34,119	21,522	111.7	14.6	25.7	6.5	158.5
Minneapolis	17,038	2,813	4,700	2,008	26,559	15,353	111.0	18.3	30.6	13.1	173.0
Kansas City	24,348	2,587	8,835	3,234	39,004	24,068	101.2	10.7	36.7	13.4	162.0
Dallas	16,817	3,586	5,169	2,883	28,455	19,926	84.4	18.0	25.9	14.5	142.8
San Francisco	34,115	13,878	9,720	2,259	59,972	35,644	95.7	39.0	27.3	6.3	168.3

NOTE: "All other income" includes additions to current net earnings and "Expenses and dividends" includes deductions from current net earnings.

GROSS INCOME ACCORDING TO SOURCE, AND EXPENSE AND DIVIDEND PAYMENTS, OF THE FEDERAL RESERVE BANKS SINCE ORGANIZATION.

(In thousands of dollars)

Federal Reserve Bank and year	Gross Income					Expenses and dividends	Ratio to expense and dividend payments of -				
	Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Total		Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Gross income
							(Per cent)				
ALL F.R. BANKS COMBINED:											
1914-1918	57,564	18,697	7,475	7,533	91,269	40,667	141.5	46.0	18.4	18.5	224.4
1919	80,768	13,994	5,761	2,116	102,639	29,284	275.8	47.8	19.7	7.2	350.5
1920	149,060	22,020	7,141	3,947	182,168	38,527	386.9	57.2	18.5	10.2	472.8
1921	109,599	5,234	6,254	2,270	123,357	47,389	231.3	11.0	13.2	4.8	260.3
1922	26,523	5,629	16,682	3,004	51,838	41,648	63.7	13.5	40.1	7.2	124.5
1923	32,956	9,371	7,444	1,167	50,938	44,780	73.6	20.9	16.6	2.6	113.8
1924	15,943	5,710	14,712	2,530	38,895	41,860	38.1	13.6	35.1	6.0	92.9
1925	17,680	9,104	12,783	2,714	42,281	39,747	44.5	22.9	32.2	6.8	106.4
1926	22,552	10,003	12,589	2,786	47,930	38,647	58.4	25.9	32.6	7.2	124.0
1927	17,011	9,202	14,206	3,353	43,772	38,978	43.6	23.6	36.4	8.6	112.2
BOSTON											
1914-1918	3,693	1,720	266	698	6,377	3,306	111.7	52.0	8.0	21.1	192.9
1919	6,003	1,078	369	47	7,497	2,134	281.3	50.5	17.3	2.2	351.3
1920	10,031	1,613	554	140	12,338	2,513	399.2	64.2	22.0	5.6	491.0
1921	6,007	515	416	78	7,016	3,208	187.3	16.1	13.0	2.4	218.7
1922	1,544	592	1,392	56	3,584	2,967	52.0	20.0	46.9	1.9	120.8
1923	2,321	741	420	51	3,533	2,761	84.1	26.8	15.2	1.8	128.0
1924	783	599	1,050	147	2,579	2,587	30.3	23.2	40.6	5.7	99.7
1925	1,198	1,493	455	146	3,292	2,654	45.1	56.3	17.1	5.5	124.0
1926	1,464	1,279	402	183	3,328	2,696	54.3	47.4	14.9	6.8	123.4
1927	1,243	1,025	607	104	2,979	2,692	46.2	38.1	22.5	3.9	110.7
NEW YORK											
1914-1918	20,266	7,883	2,022	1,532	31,703	9,936	204.0	79.3	20.4	15.4	319.1
1919	29,936	3,335	1,888	204	35,363	8,695	344.3	38.4	21.7	2.3	406.7
1920	49,839	8,323	1,976	762	60,900	9,249	538.9	90.0	21.4	8.2	658.5
1921	30,762	1,830	1,956	166	34,714	10,229	300.7	17.9	19.1	1.6	339.3
1922	3,970	1,620	5,227	535	11,352	9,283	42.8	17.5	56.3	5.8	122.3
1923	8,256	1,970	1,087	102	11,415	10,120	81.6	19.5	10.7	1.0	112.8
1924	2,613	1,447	4,166	519	8,745	9,925	26.3	14.6	42.0	5.3	88.1
1925	5,189	1,470	2,985	579	10,223	9,007	57.6	16.3	33.1	6.4	113.5
1926	5,837	2,002	2,380	557	10,776	9,126	64.0	21.9	26.1	6.1	118.1
1927	4,614	2,558	2,961	641	10,774	9,381	49.2	27.3	31.6	6.8	114.9

GROSS INCOME ACCORDING TO SOURCE, AND EXPENSE AND DIVIDEND PAYMENTS, OF THE FEDERAL RESERVE BANKS SINCE ORGANIZATION.

(In thousands of dollars)

Federal Reserve Bank and year	Gross Income					Expenses and dividends	Ratio to expense and dividend payments of -				
	Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Total		Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Gross income
							(Per cent)				
PHILADELPHIA											
1914-1918	3,660	1,459	447	470	6,036	3,428	106.8	42.6	13.0	13.7	176.1
1919	7,988	67	496	63	8,614	2,417	330.5	2.8	20.5	2.6	356.4
1920	10,420	574	742	258	11,994	3,426	304.1	16.8	21.7	7.5	350.1
1921	6,850	514	598	182	8,144	3,322	206.2	15.5	18.0	5.5	245.2
1922	2,394	712	1,119	109	4,334	2,639	90.7	27.0	42.4	4.1	164.2
1923	2,693	953	910	56	4,612	3,017	89.3	31.6	30.2	1.8	152.9
1924	1,290	408	1,136	103	2,937	2,806	46.0	14.5	40.5	3.7	104.7
1925	1,548	587	846	156	3,137	2,731	56.7	21.5	31.0	5.7	114.9
1926	2,037	662	764	165	3,628	2,825	72.1	23.4	27.0	5.9	128.4
1927	1,648	604	970	144	3,366	2,971	55.5	20.3	32.7	4.8	113.3
CLEVELAND											
1914-1918	3,550	1,757	1,090	764	7,161	3,608	98.4	48.7	30.2	21.2	198.5
1919	5,342	1,883	450	126	7,801	2,264	236.0	83.2	19.9	5.5	344.6
1920	10,571	3,064	603	284	14,522	3,306	319.7	92.7	18.3	8.6	439.3
1921	8,042	737	480	257	9,516	3,892	206.6	18.9	12.4	6.6	244.5
1922	2,247	744	1,947	105	5,043	3,467	64.8	21.5	56.2	3.0	145.5
1923	2,326	1,512	740	89	4,667	4,471	52.0	33.8	16.6	2.0	104.4
1924	1,362	670	1,582	196	3,810	5,040	27.0	13.3	31.4	3.9	75.6
1925	1,898	703	1,245	501	4,347	3,915	48.5	17.9	31.8	12.8	111.0
1926	2,212	818	1,274	224	4,528	3,676	60.2	22.2	34.7	6.1	123.2
1927	1,665	705	1,584	245	4,199	3,924	42.4	18.0	40.4	6.2	107.0
RICHMOND											
1914-1918	3,342	505	219	389	4,455	2,141	156.1	23.6	10.2	18.2	208.1
1919	4,100	351	185	198	4,834	1,211	338.5	29.0	15.3	16.3	399.1
1920	5,921	477	277	259	6,934	1,989	297.7	24.0	13.9	13.0	348.6
1921	6,166	185	196	193	6,740	2,670	230.9	6.9	7.4	7.2	252.4
1922	2,570	75	96	105	2,846	2,311	111.2	3.2	4.2	4.5	123.1
1923	2,682	63	40	97	2,882	2,130	125.9	3.0	1.9	4.5	135.3
1924	1,905	48	165	95	2,213	2,184	87.2	2.2	7.6	4.3	101.3
1925	1,721	217	154	91	2,183	1,965	87.6	11.1	7.8	4.6	111.1
1926	1,676	374	261	118	2,429	2,066	81.1	18.1	12.6	5.7	117.5
1927	898	664	419	107	2,088	1,963	45.8	33.8	21.3	5.5	106.4

GROSS INCOME ACCORDING TO SOURCE, AND EXPENSE AND DIVIDEND PAYMENTS, OF THE FEDERAL RESERVE BANKS SINCE ORGANIZATION.

(In thousands of dollars)

Federal Reserve Bank and year	Gross Income					Expenses and dividends	Ratio to expense and dividend payments of -				
	Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Total		Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Gross income
							(Per cent)				
ATLANTA											
1914-1918	2,362	457	296	284	3,399	1,849	127.7	24.7	16.0	15.4	183.8
1919	3,735	367	229	101	4,432	1,248	299.3	29.4	18.3	8.1	355.1
1920	6,688	338	321	150	7,497	1,712	390.6	19.8	18.7	8.8	437.9
1921	6,624	155	533	104	7,416	2,165	305.8	7.2	24.6	4.8	342.4
1922	1,952	165	189	51	2,357	1,941	100.5	8.5	9.7	2.6	121.3
1923	1,998	550	80	57	2,685	2,598	76.9	21.2	3.1	2.2	103.4
1924	1,532	234	85	70	1,921	1,921	79.8	12.2	4.4	3.6	100.0
1925	912	727	371	69	2,079	2,329	39.2	31.2	15.9	3.0	89.3
1926	1,705	1,025	228	101	3,059	2,127	80.2	48.2	10.7	4.7	143.8
1927	1,255	332	290	191	2,068	1,704	73.7	19.5	17.0	11.2	121.4
CHICAGO											
1914-1918	7,604	1,773	1,034	1,090	11,501	4,870	156.2	36.4	21.2	22.4	236.2
1919	8,916	2,142	736	218	12,012	4,137	215.5	51.8	17.8	5.2	290.3
1920	25,727	2,989	995	661	30,372	5,290	486.2	56.5	18.8	12.5	574.0
1921	18,829	375	858	325	20,387	6,736	279.6	5.6	12.7	4.8	302.7
1922	3,862	547	2,081	830	7,320	6,792	56.8	8.1	30.6	12.2	107.7
1923	3,872	1,420	1,050	211	6,553	6,279	61.7	22.6	16.7	3.4	104.4
1924	2,044	706	2,122	358	5,230	5,230	39.1	13.5	40.6	6.8	100.0
1925	2,122	1,055	1,834	426	5,437	5,250	40.4	20.1	34.9	8.1	103.5
1926	3,016	1,231	1,930	403	6,580	5,312	56.8	23.2	36.3	7.6	123.9
1927	2,247	1,189	2,215	529	6,180	5,283	42.5	22.5	41.9	10.0	116.9
ST. LOUIS											
1914-1918	2,676	483	277	397	3,833	2,232	119.9	21.6	12.4	17.8	171.7
1919	2,918	565	320	81	3,884	1,764	165.4	32.0	18.2	4.6	220.2
1920	6,382	274	392	152	7,200	2,578	247.6	10.6	15.2	5.9	279.3
1921	4,739	41	284	115	5,179	2,498	189.7	1.6	11.4	4.6	207.3
1922	1,304	256	832	71	2,463	2,098	62.1	12.2	39.7	3.4	117.4
1923	1,969	253	521	91	2,834	1,949	101.0	13.0	26.7	4.7	145.4
1924	1,141	142	353	68	1,704	1,805	63.2	7.9	19.5	3.8	94.4
1925	838	454	712	111	2,115	2,516	33.3	18.1	28.3	4.4	84.1
1926	1,258	340	841	88	2,527	2,159	58.3	15.7	39.0	4.1	117.1
1927	816	331	1,000	233	2,380	1,923	42.4	17.2	52.0	12.1	123.7

GROSS INCOME ACCORDING TO SOURCE, AND EXPENSE AND DIVIDENDS PAYMENTS, OF THE FEDERAL RESERVE BANKS SINCE ORGANIZATION

(In thousands of dollars)

Federal Reserve Bank and year	Gross Income					Expenses and dividends	Ratio to expense and dividend payments of -				
	Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Total		Earnings on discounted bills	Earnings on purchased bills	Earnings on U. S. securities	All other income	Gross income
							(Per cent)				
MINNEAPOLIS											
1914-1918	1,972	415	302	388	3,077	1,625	121.4	25.5	18.6	23.9	189.4
1919	1,829	883	213	82	3,007	853	214.3	103.5	25.0	9.6	352.4
1920	4,734	192	182	216	5,324	1,389	340.8	13.8	13.1	15.6	383.3
1921	4,650	-	142	192	4,984	2,044	227.5	-	6.9	9.4	243.8
1922	1,452	-	384	175	2,011	1,442	100.7	-	26.6	12.1	139.4
1923	1,089	31	521	116	1,757	1,645	66.2	1.9	31.7	7.0	106.8
1924	579	84	848	269	1,780	1,653	35.0	5.1	51.3	16.3	107.7
1925	231	441	677	129	1,478	1,436	16.1	30.7	47.1	9.0	102.9
1926	310	406	723	263	1,702	1,442	21.5	28.2	50.1	18.2	118.0
1927	192	361	708	178	1,439	1,823	10.5	19.8	38.8	9.8	78.9
KANSAS CITY											
1914-1918	3,231	367	776	563	4,937	2,516	128.4	14.6	30.8	22.4	196.2
1919	3,889	341	405	474	5,109	1,415	274.8	24.1	28.6	33.5	361.0
1920	6,441	212	505	252	7,410	2,128	302.7	10.0	23.7	11.8	348.2
1921	5,134	49	383	189	5,755	2,968	173.0	1.6	12.9	6.4	193.9
1922	1,493	9	1,409	286	3,197	2,689	55.5	.3	52.4	10.7	118.9
1923	1,794	29	971	204	2,998	2,926	61.3	1.0	33.2	7.0	102.5
1924	860	158	948	315	2,281	2,800	30.7	5.7	33.9	11.2	81.5
1925	362	538	1,118	305	2,323	2,299	15.8	23.4	48.6	13.3	101.1
1926	643	508	1,214	319	2,684	2,179	29.5	23.3	55.7	14.6	123.1
1927	501	376	1,106	327	2,310	2,148	23.3	17.5	51.5	15.2	107.5
DALLAS											
1914-1918	2,154	325	377	427	3,283	2,098	102.6	15.5	18.0	20.4	156.5
1919	2,444	113	229	276	3,062	1,217	200.8	9.3	18.8	22.7	251.6
1920	4,045	73	271	532	4,921	1,918	210.9	3.8	14.1	27.7	256.5
1921	3,830	8	171	231	4,240	2,879	133.0	.3	5.9	8.0	147.2
1922	1,609	198	195	503	2,505	2,403	67.0	8.2	8.1	20.9	104.2
1923	1,170	826	268	114	2,378	2,298	50.9	35.9	11.7	5.0	103.5
1924	531	631	782	261	2,205	2,190	24.3	28.8	35.7	11.9	100.7
1925	253	523	940	102	1,818	1,794	14.1	29.1	52.4	5.7	101.3
1926	526	463	986	159	2,134	1,533	34.3	30.2	64.3	10.4	139.2
1927	255	426	950	278	1,909	1,596	16.0	26.7	59.5	17.4	119.6

GROSS INCOME ACCORDING TO SOURCE, AND EXPENSE AND DIVIDEND PAYMENTS, OF THE FEDERAL RESERVE BANKS SINCE ORGANIZATION

(In thousands of dollars)

Federal Reserve Bank and year	Gross Income: Earnings on discounted bills	Gross Income: Earnings on purchased bills	Gross Income: Earnings on U. S. securities	Gross Income: All other income	Gross Income: Total	Expenses and dividends	Ratio to expense and dividend payments of - Earnings on discounted bills	Ratio: Earnings on purchased bills	Ratio: Earnings on U. S. securities	Ratio: All other income	Ratio: Gross income
							(Per cent)				
SAN FRANCISCO											
1914-1918	3,054	1,553	369	531	5,507	3,058	99.9	50.8	12.1	17.3	180.1
1919	3,668	2,870	238	245	7,021	1,930	190.0	148.7	12.3	12.7	363.7
1920	8,260	3,890	323	280	12,753	3,029	272.7	128.4	10.7	9.2	421.0
1921	7,966	826	237	237	9,266	4,780	166.6	17.3	4.9	5.0	193.8
1922	2,127	712	1,811	177	4,827	3,615	58.8	19.7	50.1	4.9	133.5
1923	2,786	1,021	837	-20	4,624	4,586	60.7	22.3	18.2	-.4	100.8
1924	1,302	582	1,476	127	3,487	3,718	35.0	15.7	39.7	3.4	93.8
1925	1,408	896	1,447	99	3,850	3,850	36.6	23.3	37.6	2.5	100.0
1926	1,867	897	1,586	207	4,557	3,507	53.2	25.6	45.2	5.9	129.9
1927	1,677	631	1,396	376	4,080	3,571	46.9	17.7	39.1	10.5	114.2

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January 14, 1928.

To: Mr. Eddy SUBJECT: Bank Suspensions - Year 1927

From: Mr. Smead For Hamlin

CONFIDENTIAL

There is given below a summary of bank suspensions during the year 1927 with comparative figures for the years 1921-1926. The figures shown for 1927 are, of course, preliminary, and while it is not thought that the number of suspensions will change materially, it is expected that the deposit figures will be reduced 15 or 20 million when final information is received.

BANK SUSPENSIONS

Year	All banks			Year	National banks		
	Number	Capital	Deposits		Number	Capital	Deposits
1927	661	$25,349,000	$228,006,000	1927	92	$5,490,000	$49,258,000
1926	956	32,804,000	272,488,000	1926	125	6,020,000	47,866,000
1925	612	24,441,000	172,900,000	1925	118	7,970,000	58,537,000
1924	777	28,373,000	213,444,000	1924	122	7,660,000	60,889,000
1923	650	21,978,000	188,805,000	1923	90	4,610,000	32,904,000
1922	354	13,743,000	110,721,000	1922	45	3,335,000	19,092,000
1921	502	22,902,000	198,354,000	1921	51	3,060,000	21,285,000
	State member banks				Nonmember banks		
	Number	Capital	Deposits		Number	Capital	Deposits
1927	33	2,619,000	21,435,000	1927	536	17,240,000	157,313,000
1926	35	2,549,000	20,946,000	1926	796	24,235,000	203,676,000
1925	28	1,950,000	8,727,000	1925	466	14,521,000	105,636,000
1924	37	2,645,000	13,580,000	1924	618	18,068,000	138,975,000
1923	34	2,235,000	18,324,000	1923	526	15,133,000	137,577,000
1922	12	621,000	5,151,000	1922	297	9,787,000	86,478,000
1921	19	2,309,000	21,218,000	1921	432	17,533,000	155,851,000

NUMBER OF BANK SUSPENSIONS BY FEDERAL RESERVE DISTRICTS AND BY STATES

District	1927	1926	1925	1924	1923	1922	1921
Boston	1	-	2	1	3	2	6
New York	2	-	-	6	4	3	6
Philadelphia	-	4	3	2	3	1	2
Cleveland	27	9	14	6	6	1	5
Richmond	43	61	68	43	44	36	40
Atlanta	62	162	44	48	23	22	66
Chicago	126	182	109	108	53	25	46
St. Louis	82	77	53	53	24	26	33
Minneapolis	142	283	168	295	279	64	73
Kansas City	100	112	77	133	137	92	87
Dallas	44	50	50	53	46	51	82
San Francisco	32	16	24	29	28	31	56
Total	661	956	612	777	650	354	502
States							
Iowa	70	135	84	83	35	12	24
Minnesota	65	92	50	55	45	14	13
Missouri	48	58	45	43	20	11	17
Texas	38	38	39	30	21	31	69
North Dakota	37	59	32	76	106	10	36
Kansas	36	46	19	16	34	20	14
Florida	30	43	1	3	4	5	5
Illinois	30	20	8	14	5	4	10
Oklahoma	28	21	21	49	54	41	27
South Dakota	27	115	64	111	45	9	3
Nebraska	25	18	12	17	17	23	28
Indiana	25	7	10	4	7	7	7
All other	202	304	227	276	257	167	249
Total	661	956	612	777	650	354	502

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MEMORANDUM FOR THE OPEN MARKET INVESTMENT COMMITTEE

January 12, 1928

The major features of the current credit situation as they relate to Federal Reserve policy may be summarized as follows:

VOLUME OF CREDIT

Over the past 12 months the growth of bank credit in the United States has been more rapid than in any year since 1924, and more rapid than is ordinarily required by the year to year growth in the country's trade. It appears to have been much more rapid than was required by the growth of trade this year in view of recessions in many branches of business.

As far as may be judged from the available statistics the country's bank credit expanded about 8 per cent in 1927 compared with a normal growth of possibly 6 per cent.

USE OF CREDIT

The amount of commercial loans as indicated by "all other loans" of reporting member banks, is now no larger than a year ago. The increase in total loans and investments of these banks was divided almost equally between loans on stocks and bonds and bank investments. Of the increase in investments more than half has been in Government securities, reflecting in part the Treasury refunding program which retired three billion dollars of widely distributed bonds largely by issuing lower yield short term issues which were carried more largely by banks.

In interpreting these member bank figures two other considerations should be borne in mind.

1. "All other loans" are not a complete measure of business use of credit. Much of the funds recorded as investments and loans on stocks and bonds find their way into business

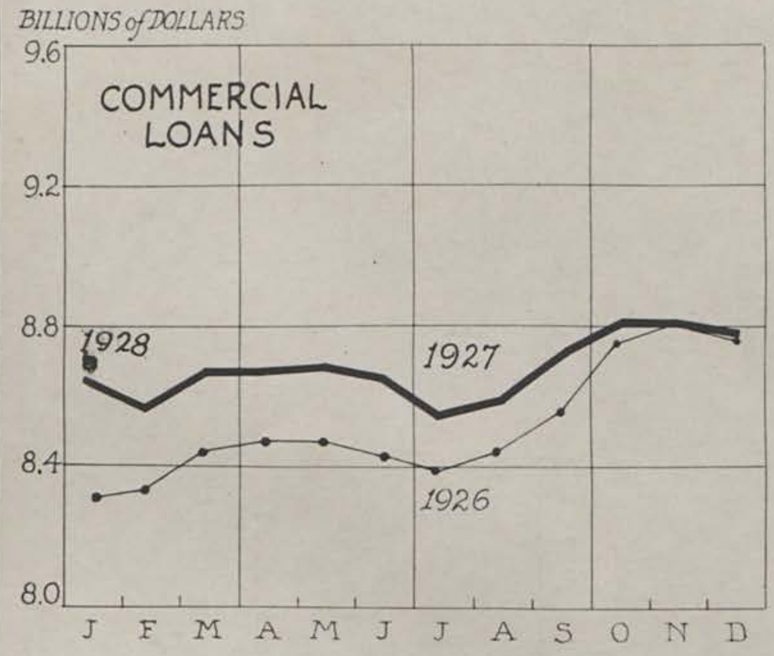
use. Through new financing for example, this year about 6 billion dollars has gone into construction of building, roads, bridges, plant equipment, etc. Business credit requirements of these sorts continue to grow even in periods of recession and these uses of credit are a factor in business recoveries from recessions. In the banking figures some of this appears in investments and loans on stocks and bonds.

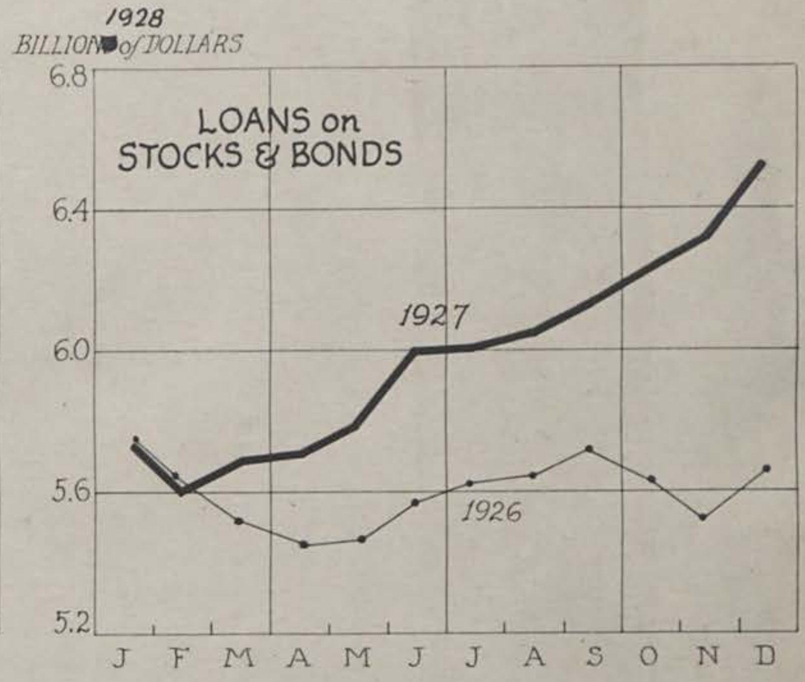
2. With our huge time deposits some considerable increments of bank credit are due to accumulation of interest. The country has perhaps 26 billions of time and savings deposits. Annual 4 per cent interest on this sum is over one billion dollars.

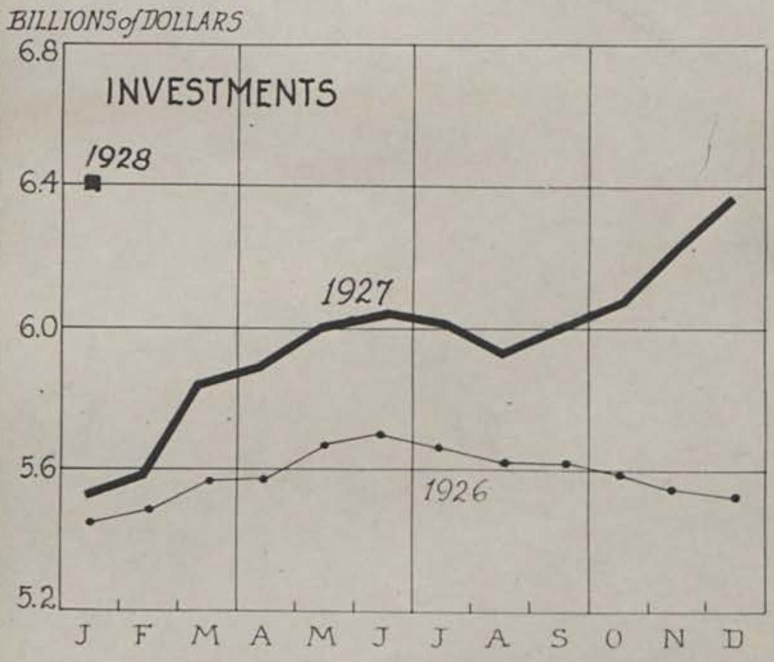
But nearly half of the increase in deposits this year has been in demand rather than time deposits, and much of the increase in bank credit has been absorbed in increased prices of securities rather than in business enterprise. The rate of increase in credit has been clearly more rapid than can be continued without leading to abnormalities of value, the eventual readjustment of which might involve a severe strain on the country's business.

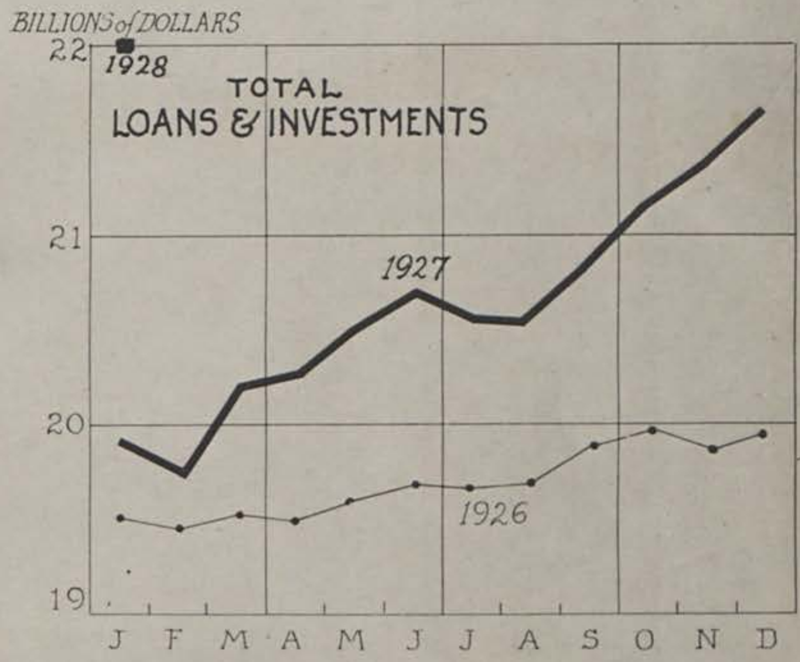
The changes in the loans and investments of reporting member banks are shown in the following diagram.

3







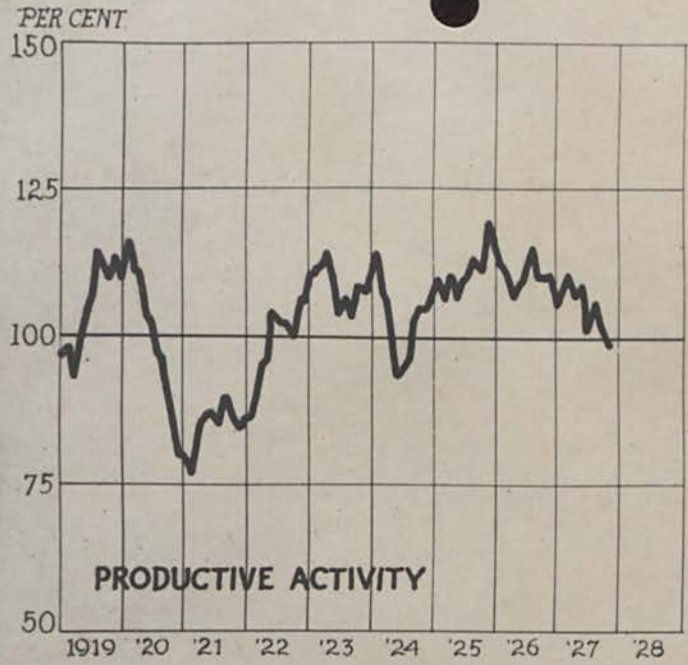


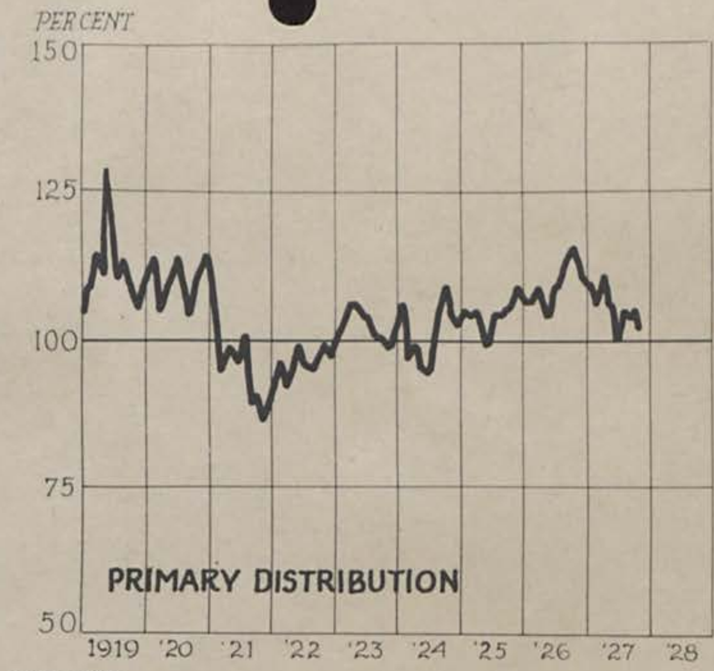
Loans and Investments of All Weekly Reporting Banks

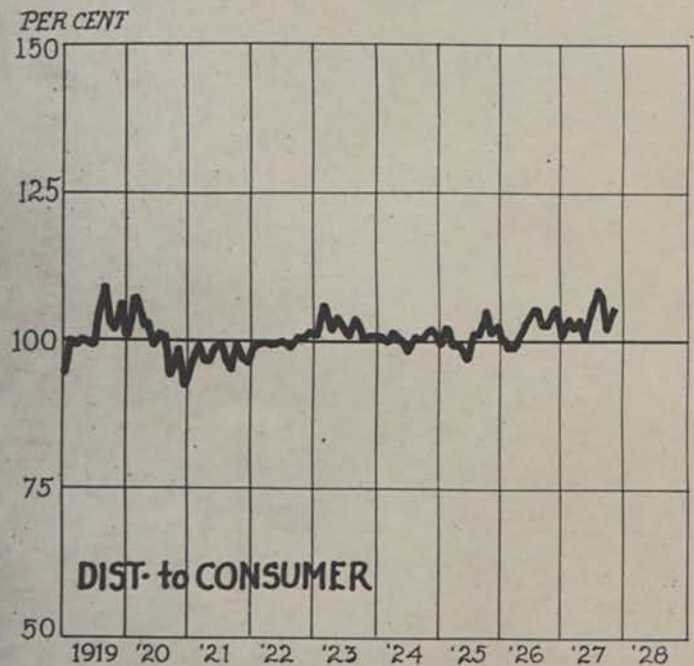
CONDITION OF BUSINESS

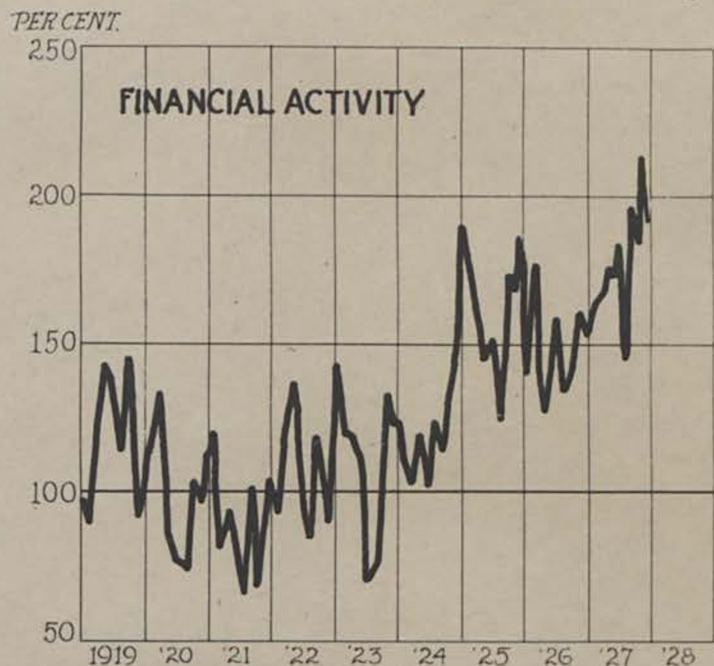
Recent changes in business activity are summarized in the following diagram which gives the components of the volume of trade index compiled by the New York Bank. In each case the figures are shown as percentages of the trend of growth of past years. The principal recessions have been in productive activity and wholesale (primary) distribution. Retail distribution has been better sustained and financial activity which includes sales of stocks, new financing, and trading in cotton and grain futures, has been going forward at a tremendous pace. This very high rate of financial activity has accounted for the fact that debits to individual accounts have been at such high levels.

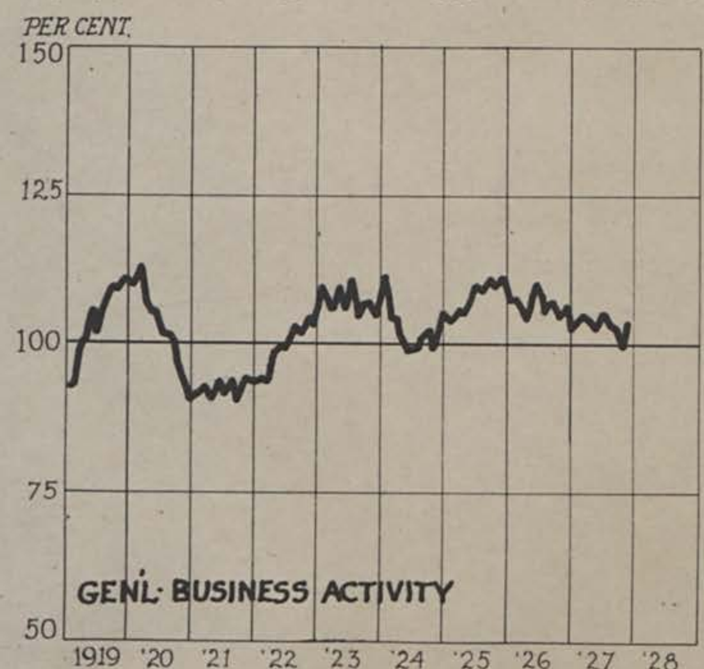
While the figures show a distinct recession in business they do not show anything approaching a depression. In none of the groups are the figures appreciably below what may be estimated as normal. While industrial employment has decreased 5 or 6 per cent since a year ago there are no indications of serious unemployment.











INDEXES of PRODUCTION, DISTRIBUTION, & FINANCIAL ACTIVITY.
(In % of computed trend)
F. R. B. of N. Y.

It is not easy to explain the recent recessions in business. There has been no general overproduction nor any credit stringency. New financing which reflects new enterprise has gone on in ever increasing amounts. It is likely that it is the effect of the accumulative action of a number of causes which include the Ford cessation of new car production, the soft coal strike, the floods, the collapse of the Florida boom, the let-down in new building and plant construction, conservation of railroads in ordering new equipment.

If these are the causes of recession they are mostly temporary and the present almost unanimous opinion that business is likely to improve as the year advances appears to have some justification.

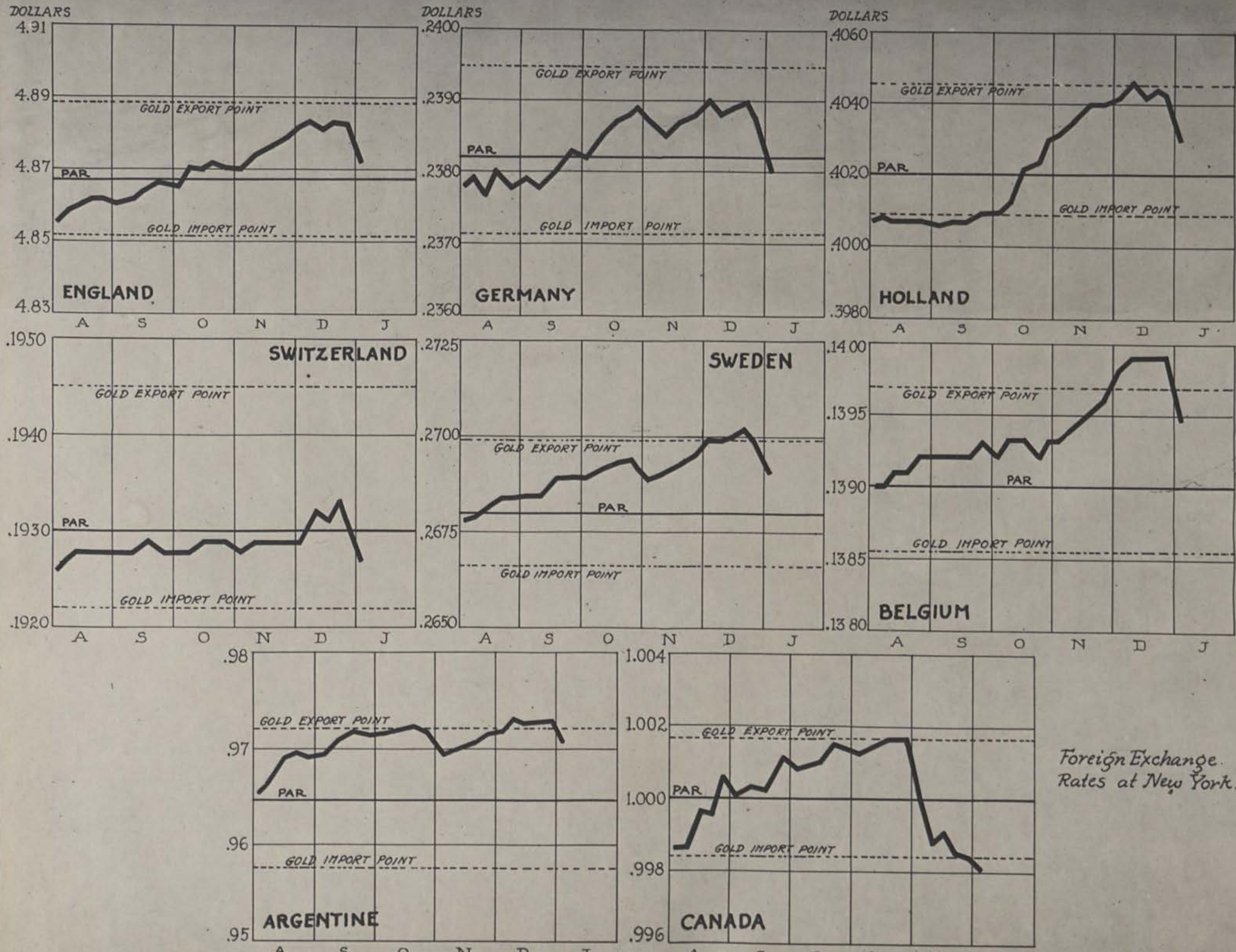
As to the effect of changes in money conditions upon business recovery there are two phases of the problem, the real supply of funds, and the psychological reaction. Under present conditions banks are finding difficulty in employing their funds safely and profitably. This would still be true even if credit were increasing less rapidly and money were somewhat firmer; business could still obtain all the credit necessary at reasonable rates. As to the psychological effect of any action the Reserve System may take in the direction of firmer money there is perhaps some question since business is now probably very sensitive to changes in the credit picture. The question for Federal Reserve policy is how the present credit expansion can best be controlled if possible without adversely affecting business.

FOREIGN EXCHANGES AND GOLD MOVEMENT

When Federal Reserve discount rates were reduced last August and September, money conditions abroad were an important consideration. Sterling and other European exchanges were weak and stringent money conditions abroad, with increasing discount rates and consequent pressure on world commodity markets which might logically be followed by unemployment and declining purchasing power for our own goods, appeared inevitable unless money were easier in this country.

Now the situation is quite changed. Much that was hoped to be accomplished by our rate action has been accomplished. Most of the European exchanges are above par and European countries have both taken gold from us and increased their holdings of dollars. Since the first of the year the exchanges have declined as bills drawn in dollars have come due and as short covering has become less of an influence. Firmer money here would put more pressure on the exchanges and might possibly lead to some rate advances abroad, but European money markets are now more firmly entrenched and much more able to take care of themselves.

The gold outflow appears to be slackening as foreign exchanges have weakened and firmer money here would perhaps operate as a further check except for central bank transactions or for other unusual transactions which may be made regardless of the exchange position. The recent gold exports, however, have not only improved the monetary position of a number of countries but have also had good psychological effect. As a result, consideration of Federal Reserve policy at this time can properly be much more independent of the European situation than was the case last summer.



Foreign Exchange Rates at New York.

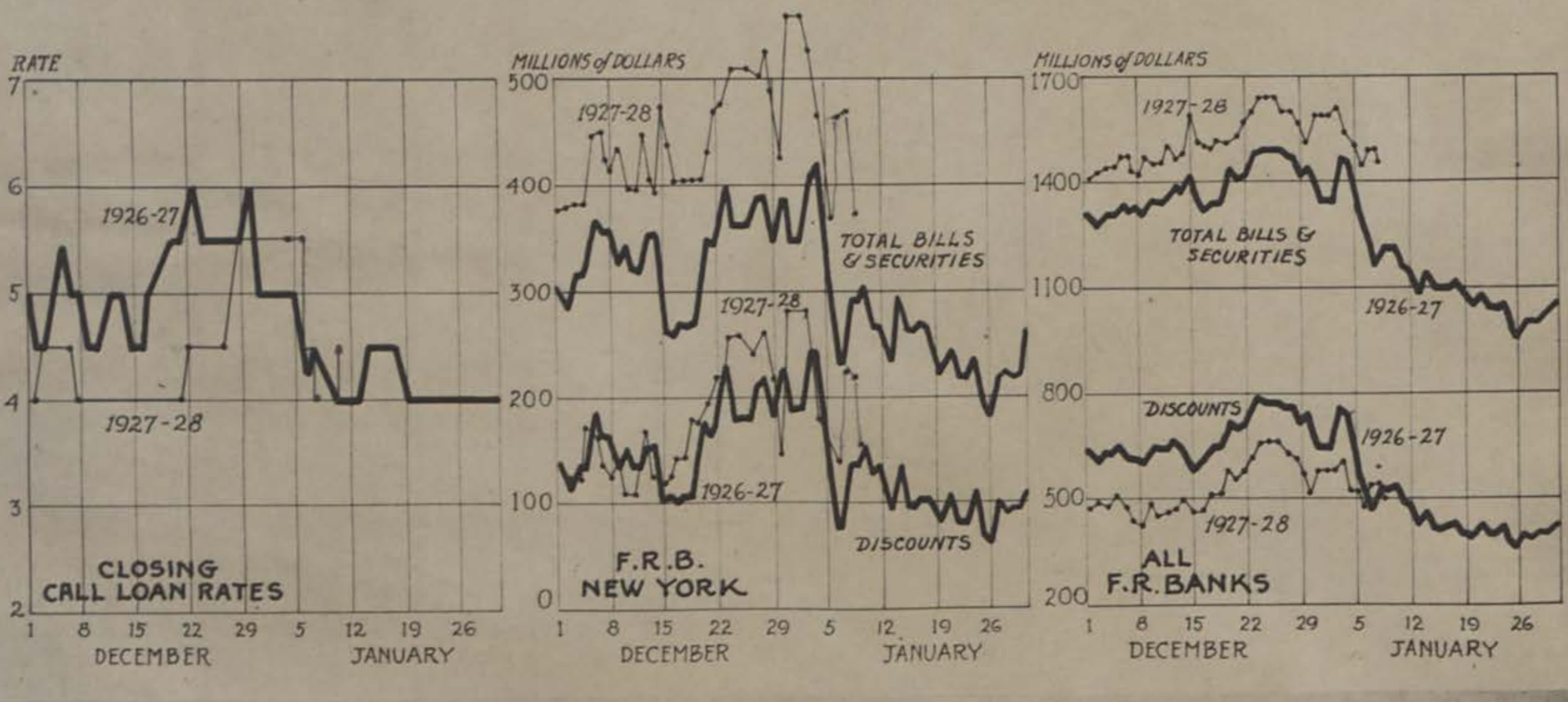
8

PRESENT POSITION OF THE MONEY MARKET

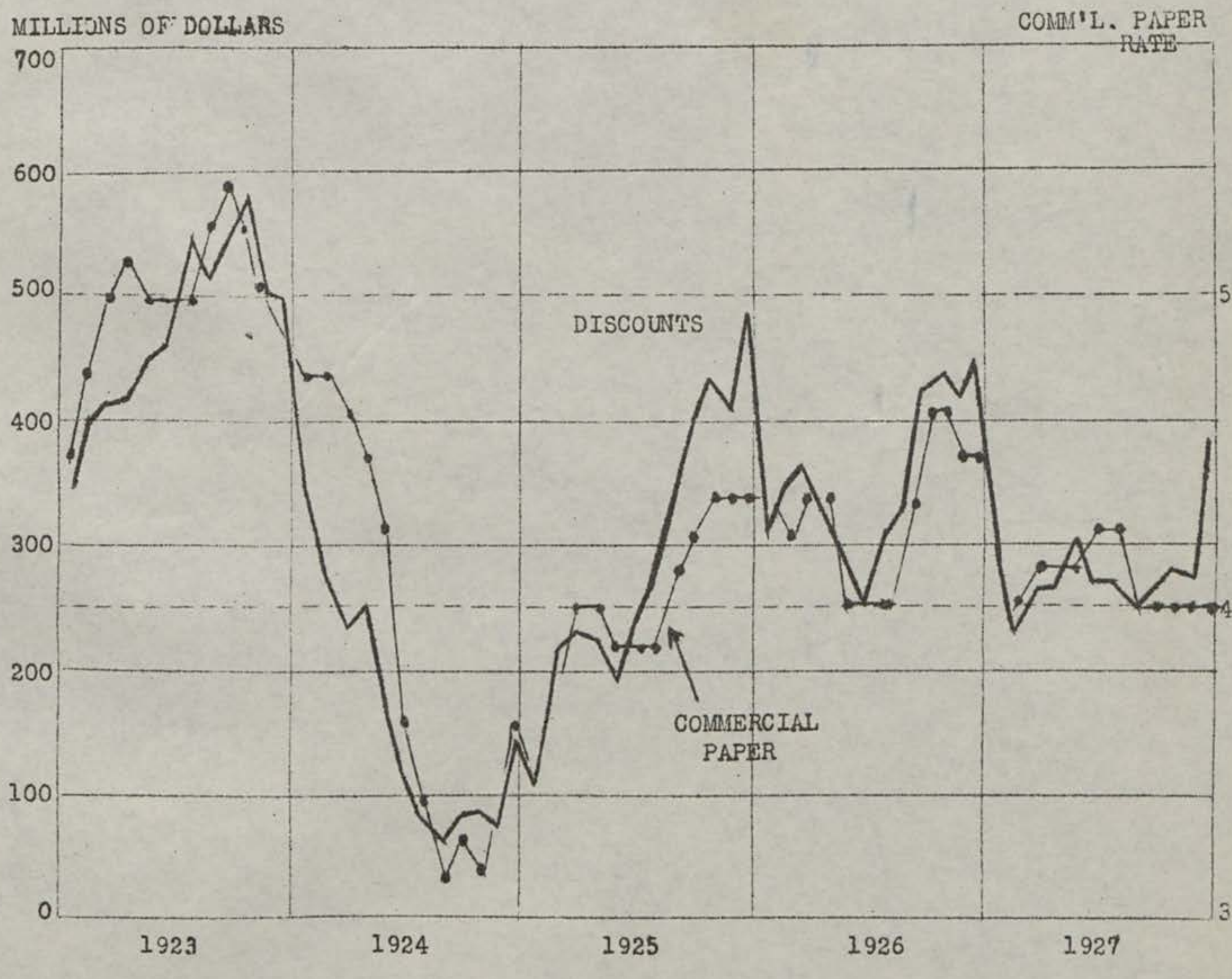
Between September 1 and January 10 net gold exports and earmarkings have taken approximately 230 million dollars out of the market. Of this only 45 million has been offset by purchases of securities thus leaving a net loss to the money market of about 185 million. During this week we have sold approximately 30 million of Government securities and anticipate selling an additional 15 millions within the next few days. In addition, the required reserves of member banks have increased about 100 million dollars. Thus since early autumn, taking all these changes into consideration, the requirements for reserve money for which banks or the market feel responsibility have increased 330 million dollars. The full weight of this borrowing has only just begun to fall on the market because of the extended Treasury overdraft from November 15 to December 20 and the distortion of the picture by year-end transactions.

At the last report all member banks owed the Reserve Banks about 500 million dollars and banks in New York City 180 million, and in addition bill and security dealers have secured funds under sales contracts totaling 76 million. The experience of the past shows that this amount of burden on the banks and market will ordinarily keep the call money rate from 1/2 to 1 1/2 per cent above the discount rate with other rates in correspondence. Thus the conditions are now present for considerably firmer money conditions than in the autumn. The adjustment of the market to these conditions has been a little slow because of general expectancy of easy money after the turn of the year, but the adjustment now appears to be taking place.

The accompanying charts show recent money market tendencies compared with a year ago and the relationship which has existed between member bank borrowing and interest rates.



MONEY RATES & USE of RESERVE BANK CREDIT
Year ends of 1926-27 & 1927-28.



Discounts for Members in Principal Cities Compared with Commercial Paper Rates

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SUMMARY

The foregoing may be summarized as follows:

1. In recent months the volume of credit has been increasing more rapidly than appears to have been required for the needs of business.

2. The increase seems to have flowed largely into the channels of investment and speculation, though business has probably benefited indirectly to some extent.

3. Business has been receding due probably to causes which are temporary. Fundamentals are generally sound.

4. Even with somewhat firmer money conditions, business is likely to get all the funds required, but business psychology may be sensitive to abrupt changes in money conditions.

5. European money markets are now in a position largely to take care of themselves and consideration of Federal Reserve policy may well be more independent of them than was the case last summer.

6. Conditions now seem to be present for substantially firmer money conditions than last autumn, though the market has been slow in adjusting to these conditions.

See Bk
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REPORT OF THE SECRETARY TO THE OPEN MARKET INVESTMENT COMMITTEE
MEETING HELD IN WASHINGTON, JANUARY 12, 1928

The holdings of Government securities in the Special Investment Account at the time of the last meeting of the Committee on November 2, 1927 amounted to approximately $375,000,000. Up to the first week in the new year this account was increased to $420,000,000 by purchases made during the month of November of approximately $45,000,000 of short-term Government securities, which purchases were made under the authorization given at the last meeting of the Committee, to offset in part earmarking and shipments of gold. Sales now being made from the Account totaling about $45,000,000 will decrease the holdings to about $375,000,000 or approximately the same level as existed on November 2.

There have been some other changes of issues in the account which have not affected the total holdings (with the exception of transactions in connection with the December 15 financing period which only temporarily changed the total holdings), the principal transactions being

November 1927	Exchange in the New York and Chicago markets of		
		$54,098,800	U.S. 3 1/2% Treasury Notes due 1930-32 and
		25,000,000	" " Fourth 4 1/4% Liberty Loan bonds for
		$79,098,800	a like amount of short-term Governments.
December 1927	Sale of	$92,575,000	4 1/2% Treasury notes maturing December 15 to the fiscal agent of the British Government to be used by them in making payment to the United States Government account British Government Debt. About $58,000,000 of these certificates were acquired from foreign correspondents on December 15 for resale to the Agent of the British Government and we purchased from the latter, in exchange, a like amount of 3 1/2% Treasury Notes due March 15, 1932.
December 1927	Sale of	$37,560,000	short-term Governments to foreign correspondents to partly replace their holdings of 4 1/2% Notes which matured December 15, 1927 against which sales offsetting purchases of other issues of short-term Governments were made.

December 1927	Exchange in the market of about	$60,000,000	of the 3 1/2% Treasury notes due March 15, 1932 acquired from the fiscal agent of the British Government for a like amount of the shorter-term Governments.
December 1927	Purchase on December 30 of	$25,000,000	3 1/2% Treasury notes due March 15, 1932 from the fiscal agent of the British Government. These notes were resold to the market at the same price.
January 1928	Sale on January 4 of	$22,000,000	3 1/4% certificates of indebtedness due March 15, 1928 to the fiscal agent of the British Government. This sale was replaced by purchases of other issues of short-term Governments in the market and from temporary holdings of the New York reserve bank.

On November 25 the Federal Reserve Bank of Minneapolis, due to its reserve position, sold $5,000,000 of Government securities from its participation in the System Account. These securities were apportioned to the other participating banks and a like amount of bills was sold Minneapolis by the New York bank from its portfolio.

On December 2 the Federal Reserve Bank of Dallas, due also to its reserve position, sold $5,000,000 of Government securities from their participation in the System Account. These securities were apportioned to the other participating banks, and the Federal Reserve Bank of New York sold to Dallas from its portfolio $5,000,000 bankers acceptances.

On January 5, 1928 the Federal Reserve Bank of Atlanta, due to an anticipated loss in their gold settlement fund, requested that they be temporarily relieved of $2,000,000 Government securities from their participation in the System Account. These securities were apportioned to the other participating banks. The Reserve Bank of Atlanta repurchased these securities on Saturday, January 7.

In accordance with Mr. Case's letter to the governor of each Federal reserve bank under date of January 4, 1928, the System's purchases of bills since the beginning of the year have been distributed in the same manner as was followed in 1926 and 1927, i. e., during the early part of the year in the proportion that each bank's expenses and dividends bear to the total of the same items for all of the banks for the previous year.

Attached are statements showing:

Exhibit A - Participation of Federal reserve banks in System Special Investment Account Government securities and classification of issues held in the account by maturities, as of close of business January 9, 1928.

Exhibit B - Statement showing earning asset holdings of all Federal Reserve banks December 28, 1927, as compared with previous week and December 29, 1926; also weekly average of earning assets from December 29, 1926, to December 28, 1927, as compared with corresponding period 1926.

EXHIBIT "A"

STATEMENT SHOWING PARTICIPATION BY FEDERAL RESERVE BANKS IN SYSTEM SPECIAL INVESTMENT ACCOUNT AND CLASSIFICATION OF ISSUES HELD JANUARY 9, 1928 IN THE ACCOUNT BY MATURITIES

Boston	$ 32,389,000	March 15, 1928 - 3 1/4% Cert. of Ind.	$ 5,337,500
New York	111,387,500	March 15, 1928 - 3 % " " "	90,099,000
Philadelphia	30,216,500	June 15, 1928 - 3 1/8% " " "	64,512,500
Cleveland	34,972,500	Sept. 15, 1928 - 4 1/4% Third L/L bonds	188,181,000
Richmond	11,202,000	Dec. 15, 1928 - 3 1/4% Cert. of Ind.	16,100,000
Atlanta	9,850,000	March 15, 1932 - 3 1/2% Treas. Notes	55,300,000
Chicago	64,656,500		
St. Louis	21,359,000		
Minneapolis	16,202,000		
Kansas City	28,462,500		
Dallas	22,762,000		
San Francisco	36,070,500		
Totals	$419,530,000		$419,530,000

Orginal
Stuck-together
Small
Robinson

Exhibit "B"

STATEMENT SHOWING EARNING ASSET HOLDINGS OF ALL FEDERAL RESERVE BANKS DECEMBER 28, 1927 COMPARED WITH PREVIOUS WEEK AND DECEMBER 29, 1926; ALSO WEEKLY AVERAGE OF EARNING A[illegible] FROM DECEMBER 29, 1926 TO DECEMBER 28, 1927 AS COMPARED WITH CORRESPONDING [illegible]RIOD 1926 AND ENTIRE YEAR 1926

(000 [illegible]ted)

	Boston											[illegible]n.	Totals
Bills Discounted - Dec. 21	$41,031	$192,79[illegible]										$38,750	$ 578,156
" " " 28	40,963	263,487										14,958	609,209
Net Change	68-	70,693+	6,[illegible]								297-	23,792-	31,053+
Bills Purchased - Dec. 21	45,022	76,896	41,661	19,7[illegible]						7,975	21,750	9,639	365,772
" " " 28	48,738	95,931	42,279	19,7[illegible]						8,072	22,685	10,485	385,527
Net Change	3,716+	19,035+	618+						2-	97+	935+	846+	19,755+
Government Securities- Dec. 21	36,177	154,028	4[illegible],664	61,511		[illegible],783	86,2[illegible]		,900	38,342	31,644	46,075	587,952
" " " 28	35,116	168,679	45,664	61,511		13,573	87,958		,900	38,342	31,693	46,075	603,126
Net Change	1,061-	14,651+	-0-	-0-		210-	1,745+		-0-	-0-	49+	-0-	15,174+
Total Earning Assets - Dec. 2[illegible]	122,220	423,718	136,554	156,8[illegible]		52,084	220,860		[illegible]5	62,916	58,272	94,464	1,[illegible],860
" " " " 2[illegible]	124,817	528,097	143,872	151,8[illegible]		48,769	213,826			62,334	56,959	71,518	1,[illegible],842
Net Change	2,587+	104,379+	7,318+	5,0[illegible]	[illegible]	3,315-	7,034-	[illegible]35	[illegible]9-	582-	1,313-	22,946-	65,982+
Comparison of Weekly Average of Earning Assets													
Dec. 29, 1926 to Dec. 28, 1927	79,546	[illegible]82,822	88,085	111,895	55,679	49,115	155,812	59,695	35,537	55,562	46,416	[illegible]00,415	1,120,579
Same period 1926	82,511	[illegible]78,628	91,705	115,174	59,659	76,645	164,144	63,841	37,874	6[illegible]8	52,777	[illegible]6,047	1,202,533
Entire year 1926	82,[illegible]	278,628	91,705	115,174	59,659	76,645	164,144	63,841	37,874	6[illegible]	52,777	1[illegible]6,0[illegible]	1,202,533
Net Change from same period 1926	2,965-	4,194+	3,62[illegible]	3,279-	3,980-	27,530-	8,332-	4,146-	2,337-	[illegible]6-	6,361-	15,632-	81,954-
Net Change from entire year 1926	2,965-	4,194+	3,620-	3,279-	3,980-	27,530-	8,332-	4,14[illegible]	2,337-	[illegible]966-	6,361-	15,632-	81,954-
Comparison of Earning Assets													
December 28, 1927	124,817	528,097	143,872	151,877	89,440	48,769	213,826	62,707	44,626	62,334	56,959	71,518	1,598,842
" 29, 1926	126,953	339,793	110,343	167,378	45,660	67,736	234,868	60,890	35,278	58,181	43,536	118,913	1,409,529
Net Change	2,136-	188,304+	33,529+	15,501-	43,780+	18,967-	21,042-	1,817+	9,348+	4,153+	13,423+	47,395-	189,313+

SUMMARY FOR SYST[illegible]M

Bills Discounted for week	$31,053+
Bills Purchased for week	19,755+
Government Securities for week	15,174+
[illegible]tal Earning Assets for week	65,982+
Comparison of Weekly Average of Earning Assets Dec. 29, 1926 to Dec. 28, 1927 with same period 1926 and entire year 1926	81,954-
Comparison of Earning Assets December 28, 1927 with December 29, 1926	189,313+

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See Sh

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date January 24, 1928.

To Mr. Hamlin

Subject:

From Mr. McClelland.

2—8496

There are given below the changes in the discount rate of the Federal Reserve Bank of New York made during the years 1925, 1926 and 1927:

February 27, 1925 -	Increased from 3% to 3 1/2%; the rate of 3% having been in effect since August 8, 1924.
January 8, 1926 -	Increased to 4%.
April 23, 1926 -	Reduced to 3 1/2%.
August 13, 1926 -	Increased to 4%.
August 5, 1927 -	Reduced to 3 1/2%.

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Weeks Ending		Boston	New York Banks	New York Dealers	New York Total	Phila.	Clevelan
-1929-							
Jan.	9	$ 15,601	$ 8,624	$ 7,684	$ 16,308	$ 2,925	-0-
	16	8,792	18,089	7,047	25,136	3,058	1,251
	23	4,605	14,543	10,624	25,167	2,144	539
	30	1,148	14,893	1,107	16,000	2,524	-0-
Feb.	6	1,726	16,870	1,694	18,564	3,155	717
	13	550	9,382	5,346	14,728	1,129	1,303
	20	816	25,293	5,099	30,392	553	476
	27	1,564	8,457	705	9,162	969	253
March	6	1,579	13,256	2,244	15,500	3,311	418
	13	6,389	2,018	5,567	7,585	2,124	1,510
	20	1,506	9,752	7,508	17,260	1,227	863
	27	4,701	5,648	12,097	17,745	516	1,424
April	3	929	9,073	6,584	15,657	1,410	498
	10	1,665	6,732	2,531	9,263	1,639	-0-
	17	4,281	3,525	2,504	6,029	1,594	2,042
	24	2,496	8,321	416	8,737	2,554	-0-
May	1	3,050	13,843	8,654	22,497	2,387	-0-
	8	1,442	7,408	191	7,599	1,689	250
	15	3,230	4,385	9,634	14,019	1,399	8
	22	1,742	6,382	11,898	18,280	1,623	-0-
	29	1,442	3,834	6,390	10,224	1,946	502
June	5	1,594	4,856	2,902	7,758	2,113	-0-
	12	1,040	4,008	1,355	5,363	2,177	-0-
	19	114	2,810	2,883	5,693	991	792
	26	339	4,374	945	5,319	877	1,050
July	3	1,686	15	6,606	6,621	1,305	-0-
	10	-0-	-0-	1,270	1,270	45	-0-
	17	604	847	-0-	847	124	-0-
	24	598	1,575	8,654	10,229	771	-0-
	31	864	4,831	-0-	4,831	588	-0-
Aug.	7	720	3,031	-0-	3,031	1,090	-0-
	14	4,857	2,038	6,707	8,745	1,356	-0-
	21	2,281	3,929	2,819	6,748	1,558	104
	28	2,686	6,585	5,926	12,511	3,644	598
Sept.	4	1,411	2,919	8,265	11,184	1,856	1,190
	11	1,334	16,779	21,431	38,210	2,023	-0-
	18	1,131	13,090	13,974	27,064	2,202	200
	25	357	16,556	5,151	21,707	2,304	75
Oct.	2	1,014	14,113	52,986	67,099	2,938	479
	9	1,125	9,828	41,463	51,291	1,981	-0-
	16	962	13,966	18,963	32,929	1,943	460
	23	1,744	2,323	30,092	32,415	952	351
	30	5	6,053	-0-	6,053	284	-0-
Nov.	6	3	12,862	-0-	12,862	161	-0-
	13	18	775	200	975	707	-0-
	20	12	311	1,785	2,096	338	-0-
	27	383	-0-	-0-	-0-	573	-0-
Dec.	4	-0-	1,351	2,820	4,171	141	-0-
	11	1,418	11,650	9,944	21,594	1,285	-0-
	18	84	17,630	19,750	37,380	1,220	-0-
	24	1,187	8,974	297	9,271	565	-0-
	31	1,649	7,995	33,298	41,293	2,629	-0-
TOTALS		$100,474	$406,402	$416,010	$822,412	$80,617	$17,353
-1930-							
Jan.	8	2,359	25,766	7,338	33,104	1,385	-0-
	15	3,359	20,539	30,900	51,439	1,838	-0-
	22	1,627	9,398	14,187	23,585	1,608	-0-
	29	563	10,740	4,834	15,574	1,160	-0-
Feb.	5	172	37,970	14,294	52,264	1,813	-0-
	11	-0-	6,073	8,973	15,046	544	-0-
	19	613	37,852	12,431	50,283	878	-0-
	26	2,175	30,381	15,677	46,058	2,585	-0-
Mar.	5	900	28,464	3,858	32,322	1,150	-0-
	12	301	8,714	2,387	11,101	279	-0-
	19	85	13,650	4,567	18,217	698	-0-
TOTALS		$12,154	$229,547	$119,446	$348,993	$13,938	-0-

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Date January 23, 1928

To Mr. Hamlin

Subject: Page 71

From Mr. Goldenweiser

see B 11

2—8495 GPO

I attach hereto copy of a letter I sent to Mr. Curtiss in accordance with your request of the nineteenth.

VOLUME 176
PAGE 71

January 21, 1928

Dear Mr. Curtiss:

At your request transmitted through Mr. Hamlin, I am sending you the following brief statement of the current credit situation.

Nineteen twenty-seven was a year of rapid expansion of bank credit, the growth of loans and investments of reporting member banks in leading cities for the year being about 9 per cent, compared with 2 per cent in 1926, and 5 per cent in 1925. In 1924, however, the credit of these banks increased 15 per cent, that is, at a more rapid rate than in the year just closed.

No increase in the demand for credit by trade and industry occurred during the year. Thus loans, other than loans on securities, decreased by $23,000,000 between the average for December, 1926 and December, 1927. On the basis of evidence available for all member banks for the end of June, it appears, furthermore, that there was a growth in real estate loans, which are included in "all other" loans, and that commercial loans proper declined considerably during the year. A factor accounting for the decline in commercial loans was the somewhat lower volume of industrial and trade activity and the slightly lower level of commodity prices. An additional influence, and one that is emphasized by Professor Sprague, was the low level of long-time interest rates, compared with the rates charged to customers by commercial banks. This differential induced many large users of credit to issue securities rather than borrow from their banks. The volume of capital flotations, both domestic and foreign, was indeed exceptionally large in 1927.

This large volume of securities issued was in turn an influence in the growth of investment holdings of commercial banks and also in the increase of collateral loans at these banks, particularly of loans to brokers and dealers in securities. This class of loans, as shown for about 50 reporting member banks in New York City, increased from $2,698,000,000 in December, 1926 to $3,621,000,000 in December, 1927, a growth for the year of 34 per cent. According to the figures published by the New York Stock Exchange, which are the most comprehensive, brokers' loans reached at the end of December the unprecedented total of $4,433,000,000, showing a growth of 35 per cent for the year.

Analysis of the increase in brokers' loans shows that a considerab proportion of it represents loans by New York banks on account of out-of-town banking correspondents and on account of other customers. A part of the growth in the loans by New York banks for their own account also represents the use of out-of-town funds, since balances held by these banks for banks in the interior increased by $204,000,000 during the year. Following is a statistical summary of the situation:

BROKERS' LOANS AND BANKERS' BALANCES AT REPORTING BANKS IN NEW YORK CITY

(Monthly average of weekly figures: millions of dollars)

	December: 1926	December: 1927	Increase
Brokers' loans, total	2,698	3,621	923
For own account	887	1,282	395
For account of out-of-town banks	1, 045	1,354	309
For account of others	766	985	219
Amounts due to banks	1,078	1,282	204

The figures indicate that the growth of brokers' loans in New York City was largely out of funds supplied by the rest of the country; an ample supply of bank credit and absence of commercial demand were the principal factors bringing these funds to New York.

The volume of reserve bank credit, which during a large part of 1927 was smaller than in 1926, increased rapidly after August 1, so that during the last two months it was much larger than a year before, and at the end of the year was larger than at any time in the past six years. This change in the volume of reserve bank credit was due chiefly to the loss of gold, either through export or through earmarking, which was reflected in a declineof our stock of monetary gold by $208,000,000 during the last four months.

The reserve system's credit policy throughout a large part of the year was in the direction of easy money. Early in the year large gold imports came to this country and not being offset by open-market purchases, were used to reduce member bank indebtedness and also to increase their reserve balances with the reserve banks. In the spring gold withdrawals through earmarking for foreign account were more than offset by the purchase of securities, and member bank reserves continued to grow. In mid-summer the system adopted a

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policy of further purchases of securities and of reduction in discount rates. This policy was adopted at a time when domestic business was relatively inactive, and when easy money was expected to facilitate the marketing of crops, which was then about to begin. It was also believed that a lower level of rates here than abroad would help European countries to meet the autumn demand for dollar exchange, necessary to pay for American products, without loss of gold or serious tightening of credit conditions. As the result of this policy, sterling and other European exchanges advanced in New York, and as early as September gold began to flow out of this country, chiefly to South America. At first the Federal reserve banks offset gold exports by security purchases, but in view of the continued ease of the money market and the rapid growth of bank credit offsetting purchases were discontinued, and the withdrawals of gold were permitted to have their effect on the money market. This resulted in a rapid growth of member bank borrowing, which was also increased by seasonal currency requirements. At the end of the year money rates advanced and the market became tighter, though still less firm than the year before.

After the turn of the year the usual seasonal flow of currency from circulation and of investment funds to New York eased the condition of the money market. Gold movements in January were in considerable volume, but imports from Canada were about as large as exports to Europe and South America. In order to absorb the return flow of currency and not have it lead to a further growth of member bank reserves, the Federal reserve banks have sold securities out of the system's investment account.

Information on business activity in January is as yet incomplete, but increased activity is reported in the steel and automobile industries. Commodity prices, after rising from June to October, largely reflecting price advances for agricultural products, subsequently declined somewhat. In Europe central banks are now in a stronger position than last autumn, both because of the fact that this is the season of heavy American purchases abroad, and consequently of strength in the exchanges, and also because of some additions to the gold reserves in recent months. At some of these banks discount rates have been reduced.

I hope that this brief survey, which I am afraid, contains nothing with which you are not already familiar, may be of service to you.

Very truly yours,

E. A. Goldenweiser,
Director of Research and Statistics.

Mr. F. H. Curtiss
Federal Reserve Agent
Boston, Massachusetts

January 21, 1928

Dear Mr. Curtiss:

At your request transmitted through Mr. Hamlin, I am sending you the following brief statement of the current credit situation.

Nineteen twenty-seven was a year of rapid expansion of bank credit, the growth of loans and investments of reporting member banks in leading cities for the year being about 9 per cent, compared with 2 per cent in 1926, and 5 per cent in 1925. In 1924, however, the credit of these banks increased 13 per cent, that is, at a more rapid rate than in the year just closed.

No increase in the demand for credit by trade and industry occurred during the year. Thus loans, other than loans on securities, decreased by $23,000,000 between the average for December, 1926 and December, 1927. On the basis of evidence available for all member banks for the end of June, it appears, furthermore, that there was a growth in real estate loans, which are included in "all other" loans, and that commercial loans proper declined considerably during the year. A factor accounting for the decline in commercial loans was the somewhat lower volume of industrial and trade activity and the slightly lower level of commodity prices. An additional influence, and one that is emphasized by Professor Sprague, was the low level of long-time interest rates, compared with the rates charged to customers by commercial banks. This differential induced many large users of credit to issue securities rather than borrow from their banks. The volume of capital flotations, both domestic and foreign, was indeed exceptionally large in 1927.

This large volume of securities issued was in turn an influence in the growth of investment holdings of commercial banks and also in the increase of collateral loans at these banks, particularly of loans to brokers and dealers in securities. This class of loans, as shown for about 50 reporting member banks in New York City, increased from $2,698,000,000 in December, 1926 to $3,621,000,000 in December, 1927, a growth for the year of 34 per cent. According to the figures published by the New York Stock Exchange, which are the most comprehensive, brokers' loans reached at the end of December the unprecedented total of $4,433,000,000, showing a growth of 35 per cent for the year.

Form No. 131.

Office Correspondence

FEDERAL RESERVE BOARD

Sec BK

Date January 27, 1928.

To Mr. Hamlin

Subject: Domestic Acceptances

From Mr. Smead

Page 101

2—9495

CD

In accordance with your request for some figures relating to domestic acceptances, I am handing you herewith a statement showing the amount of bankers' acceptances drawn to finance the domestic shipments of goods or the storage of goods within the United States, which were bought outright (not including acceptances taken under resale contract) by the Federal reserve banks during the past three years, classified to show the commodity financed. In this statement you will note that the principal commodities involved are cotton, grain, tobacco, wool, and other agricultural products.

The total amount of domestic bankers' acceptances held by the Federal reserve banks as compared with the total volume of such acceptances outstanding (approximately 80 per cent of which were drawn to finance the domestic storage of goods) on December 31, 1924, and as of November 30 of each of the past three years, was as follows:

BANKERS' ACCEPTANCES BASED ON DOMESTIC TRANSACTIONS

Date	Held by F. R. Banks*	Total Outstanding
Nov. 30, 1927	$81,880,000	$208,039,000
1926	65,641,000	125,121,000
1925	59,298,000	118,840,000
Dec. 31, 1924	94,556,000	200,305,000

*Including resale contracts.

As you know, the Federal reserve banks buy very few trade acceptances in the open market and what few they do buy are most always drawn to finance imports or exports of goods. During 1927 the small volume of domestic trade acceptances purchased, about $200,000, are understood to have been based on the purchase of silk by manufacturers from import houses.

Most of the domestic trade acceptances acquired by the Federal reserve banks are endorsed by member banks and discounted with the Reserve banks, the reason being presumably that these trade acceptances do not have a ready sale in the open market and consequently the rate which they command is no better than the rate on other discounted bills. During 1927 the Federal reserve banks discounted $15,897,000 of trade acceptances, all of which were drawn to finance domestic transactions. The amount of trade acceptances discounted by the Federal reserve banks was relatively large back in 1918-1921, as will be seen from the following table showing figures of trade acceptances discounted since 1916:

1916	$5,212,000	1920	$192,157,000	1924	$38,325,000
1917	37,771,000	1921	128,944,000	1925	23,688,000
1918	187,373,000	1922	44,272,000	1926	20,316,000
1919	138,420,000	1923	51,393,000	1927	15,897,000

In the early days, as you know, quite an effort was made to popularize the trade acceptance, and as a matter of fact, in some cases the Federal Reserve Board granted preferential rates on trade acceptances. These preferential rates, however, were all discontinued before the end of 1921.

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BANKERS' ACCEPTANCES BASED ON DOMESTIC TRANSACTIONS PURCHASED

BY THE FEDERAL RESERVE BANKS 1925 TO 1927.

Page 101

By Commodities Financed.

	1925	1926	1927*
Cotton	$136,945,000	$111,240,000	$182,385,000
Grain	58,281,000	33,559,000	31,789,000
Tobacco	33,851,000	22,802,000	20,090,000
Wool	17,320,000	19,766,000	11,560,000
Rubber	1,321,000	2,597,000	26,117,000
Sugar	2,740,000	10,726,000	21,483,000
Crude & Refined mineral oil	7,423,000	9,754,000	5,730,000
Fruit	4,226,000	7,905,000	11,386,000
Hides & Skins	7,703,000	7,017,000	9,120,000
Lard & Meats	7,099,000	6,479,000	4,206,000
Lumber	2,437,000	5,168,000	2,462,000
Silk	2,275,000	3,797,000	2,425,000
Vegetables	3,529,000	3,554,000	2,183,000
Coal	2,632,000	2,873,000	4,570,000
All other	47,694,000	59,670,000	50,562,000
Total	335,476,000	306,907,000	386,068,000

*Preliminary figures.

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Gold Inventory(?)

Jan. 30, 1928

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THE RESERVE BANKS, GOLD, AND MONEY RATES

Firmer money rates

Banking and credit developments since the turn of the year have been so much under the influence of seasonal movements that it is difficult to determine the underlying less temporary trends. The return flow of currency from circulation, which always sets in after December 24, was in approximately the same volume this year as usual, the decline in the currency demand between that date and January 25 being $520,000,000. Another seasonal movement has been the flow of funds to New York arising largely out of first-of-year dividend and interest disbursements to security holders all over the country seeking reinvestment in the money market. The volume of member bank credit, which reached its peak on January 4, declined by about $200,000,000 in the following two weeks, the decline being entirely in loans on securities, and being accompanied by a corresponding decrease in demand deposits, and consequently in member bank reserve requirements. Demand for reserve bank credit diminished rapidly, and total bills and securities of the Federal reserve banks declined from $1,600,000,000 on December 28 to $1,175,000,000 on January 25. Notwithstanding these seasonal influences, conditions in the money market continued to be about the same as in December, with a tendency at the end of the month towards firmer rates. The rate on call money, with fluctuations, was at about the same average level as in December, and the rates on time money were somewhat firmer. There was a slight advance in the rate for bankers' acceptances and the rate on commercial paper, after declining slightly at the turn of the year, rose once more to the 4 per cent level, which it had maintained since early autumn. Among the influences working against an easing in money rates were the sales of United States securities by the Federal reserve banks, which from January 4 to January 25 amounted to $187,000,000. These sales of securities absorbed someof the return flow of currency, with the consequence that member bank borrowings at the reserve banks declined less than would have otherwise been the case. There were also longer-term influences in the direction of firmer money rates. Reserve requirements of member banks increased rapidly in the last half of 1927, reflecting a growth in the banks' deposit liabilities, and particularly in their demand deposits. There was also a decrease of more than $200,000,000 in the country's stock of monetary gold during the last four months of the year through exports and through earmarkings for foreign account. In January gold exports continued on a considerable scale, but were offset by the usual seasonal flow of gold from Canada, so that there was little change in the gold stock for the month. The previous loss of gold during the period of the maximum seasonal currency demand, however, was a factor in increasing the volume of member bank borrowings at the reserve banks, and continued to be an influence toward firmer money conditions after the turn of the year.

Gold and Federal reserve policy

In view of the fact that the reversal of gold movements in the last four months was one of the principal financial developments of 1927, it is opportune at this time to review briefly changes in the gold stock during the year, and the policy of the Federal reserve system with reference to these changes. During the first four months of the year there were large increases in the gold stock arising from gold imports, which in January of last year were larger than in any month for about three years. This gold, together with the usual seasonal return flow of currency was used by member banks to liquidate their indebtedness at the reserve banks, and the volume of reserve bank credit declined rapidly to the lowest level in about two years and remained near this level for several months. There were no considerable changes in the system's holdings of Government securities before May, and the gold imports during this period were reflected in a growth of member bank reserve balances and exerted an easing influence on the money market. Beginning with May, however, the stock of monetary gold began to decline slowly, and declined almost continuously for the rest of the year, the decrease between May 1, 1927 and January 1, 1928 being about $230,000,000. The slight decline in the gold stock in May reflected the withdrawal of $95,000,000 of gold to be earmarked for foreign account, offset by the importation of about $30,000,000 of gold and the purchase by the reserve banks of $60,000,000 of gold abroad. Both the earmarking and the imports during May were largely the consequence of banking developments in France. The Bank of France in the course of the month paid off a war debt to the Bank of England and thereby regained control of about $90,000,000 of gold which had been pledged as partial security for the loan, and had thus not been a part of the world's available stock of monetary gold. The gold thus released was offered in the market and $30,000,000 of it was exported to the United States on private account, while $60,000,000 was purchased by the Federal reserve banks and kept in London. Later in the month the Bank of France decided to convert a part of its rapidly growing foreign exchange holdings into gold and for this purpose purchased large amounts of gold in New York to be earmarked for its account. In June and July the Federal reserve banks sold the gold held abroad, at first holding the proceeds abroad partly on balance and partly invested in bills, but later disposing of these foreign holdings.

Changes in gold stock between May 1 and September 1 were relatively small, and reserve bank open market policy during that period was not materially influenced by gold movements. Considerable purchases of Government securities during these months were made by the banks as a part of a policy of easing the money situation adopted by the reserve system in mid-summer which was reflected also in the reduction of the discount rates at all the reserve banks from 4 to 3 1/2 per cent.

Reversal of gold flow

The decline of money rates to the low level which prevailed in this country beginning with August increased the differential between the rates in this country and abroad and led to a considerable outflow of funds from the United States. As a consequence, sterling and other exchanges advanced rapidly in the New York market and it became profitable for some countries to procure gold in the United States. This situation resulted in the purchase in New York and exportation of large amounts of gold by South American countries, particularly Argentina and Brazil, which were undertaking monetary reforms at that time, floated substantial loans in this country, and were in a position to acquire gold in large volume as required by their programs. The relatively low money rates prevailing in New York and the strength of foreign exchanges were influences causing much of this gold to be bought in New York rather than in other financial centers, and this relieved Europe of a large part of the drain of gold to South America. While the exports of gold in the latter part of the year were principally to Argentina and Brazil, Canada also obtained its usual seasonal volume of gold in November and December, and there were smaller exports to Poland, Netherlands, France, England and Belgium. The destination of gold exports during the period September to December is shown in the following table:

GOLD EXPORTS: SEPTEMBER-DECEMBER, 1927

Country	Amount
Belgium	$2,200,000
England	8,548,000
France	10,000,000
Germany	-
Netherlands	8,055,000
Poland	5,000,000
Canada	25,274,000
Argentina	61,390,000
Brazil	33,010,000
All other	14,781,000
Total	168,257,000

In addition to the exports of gold, there were also additional gold withdrawals for earmarking in the autumn months, so that between September 1 and January 1 there was a decrease of $208,000,000 in the total monetary stock of gold. At first the effects of these decreases on the money market were generally offset by security purchases by the reserve banks, but these purchases were in much smaller volume after the beginning of November. The larger part of the gold withdrawals, therefore, exerted its full influence on credit conditions in this country, both by increasing member bank indebtedness at the reserve banks, and by giving rise to a somewhat firmer situation in the money market.

The system's policy in permitting the gold exports in the last months of the year to have their full effect on domestic credit conditions was due largely to the fact, that while money continued to be available to trade and industry at relatively low rates, there was a continued andrapid growth in the volume of member bank credit, and particularly in the banks' investments and loans on securities. Thus, notwithstanding the drain on member bank reserves through gold exports, reserve balances of these banks with the reserve banks increased in the autumn and early winter as a consequence of the growth of the member banks' deposit liabilities.

Reserve bank funds in 1927

For the year 1927 as a whole reserve bank credit outstanding showed an increase of about $130,000,000, as measured by the average volume of bills and securities held by the reserve banks in December, 1926 and December, 1927. As against this increase in reserve bank credit there was a decrease in the country's monetary gold stock of about $70,000,000 (as measured by averages of figures for first and end of month), so that reserve funds released through discounts and purchases by the reserve banks exceeded the loss of gold, which absorbs reserve funds, by about $60,000,000 during the year. Reserve funds were also released, however, through the reduction of about $30,000,000 in deposits held by the reserve banks for the Treasury and other nonmember depositors, and of $90,000,000 in the volume of currency in circulation. This decrease in the currency demand, which reflected the somewhat less active condition of trade and industry, resulted in an accumulation of currency at member banks, which deposited this cash with the reserve banks and thus obtained an equivalent amount of reserve bank funds. The additions to these funds at the disposal of the member banks were absorbed in the member banks' reserve balances which increased by $180,000,000 during the year. Thus the increase in member bank reserve balances, which constituted the basis of credit extension by member banks during the year, was obtained in part from an increase in the bills and securities held by the reserve banks and in larger part from other sources, notably the decrease in the country's demand for hand-to-hand currency.

Money rates abroad

During the last four months of the year, the loss of gold, together with the increased demand for reserves and the seasonal growth of currency requirements, resulted in a rise in money rates. In foreign markets money rates con-

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tinued firm throughout the autumn and early winter, notwithstanding the outflow of gold and of funds from the United States. The following chart shows rates on bankers' acceptances in the principal money markets of the world. In London the rate remained steady after its temporary decline and rise during last May. In Germany, the bill rate rose almost continuously throughout the year from 4 per cent in January to about 7 per cent in December. Rates in other countries also advanced. In recent weeks there has been some easing of money rates in some of the European countries, owing in part to the passing of the credit and foreign exchange requirements of the autumn season. Gold reserves at some of the European banks also showed increases during the period, partly as a result of imports from this country, and partly because they acquired some of the new gold mined in South Africa. As a consequence, the reserve position of some of the European central banks is stronger at present than it was during the autumn, and discount rates at some of these banks have been reduced in recent weeks. The declines in money rates in foreign centers, together with the recent rise of rates in this country, has brought the levels of interest rates here and abroad into somewhat closer alignment.

Advances in discount rates

The discount rate on all classes of paper of all maturities was advanced from 3 1/2 to 4 per cent at the Federal Reserve Bank of Chicago, effective January 25, and at the Federal Reserve Bank of Richmond, effective January 27.

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HYPOTHETICAL STATEMENT RE FEDERAL RESERVE SYSTEM

Actual Statement Federal Reserve Banks, January 4, 1928:

(In Millions)

Total Reserves		$2,889
Deposits	$2,536	
Federal Reserve Notes	1,760	4,296
Reserve Ratio		67.2

Assuming that we export one billion dollars gold from the present Reserve Bank supply; then -
Federal Reserve Bank Statement:

Total Reserves		$1,889
Deposits	$2,536	
Federal Reserve Notes	1,760	4,296
Reserve Ratio		44.

Assuming we have gathered one billion dollars of gold certificates in the general circulation, substituting Federal Reserve Notes; then -
Federal Reserve Statement:

Total Reserves		$3,889
Deposits	$2,536	
Federal Reserve Notes	2,760	5,296
Reserve Ratio		73.4

Assuming the export of one billion gold, after taking it from the circulation;then-
Federal Reserve Statement:

Total Reserves		$2,889
Deposits	$2,536	
Federal Reserve Notes	2,760	5,296
Reserve Ratio		54.5

Assuming further that, after the export of gold, some occasion should arise, from apprehension, extraordinary industrial activity, some minor war, or otherwise, when we should need a considerable amount of additional currency. The ratio of currency in general circulation in 1921, at the bottom of the depression, to total bank deposits of the country was 13.83%. Applying that ratio to present bank deposits (52,250) would call for 7,226 millions or 2,483 millions additional, which, by the way, is less than 5% of all bank deposits.

Assuming the issue of that amount of additional Federal Reserve Notes; then -
Federal Reserve Statement:

Total Reserves		$2,889
Deposits	$2,536	
FederalReserve Notes	5,243	7,779
Reserve Ratio		37.

Of course, if currency were withdrawn from the banks, deposits would be reduced by so much and the required reserve accordingly, but the reduction of 2,500 millions of deposits from all the banks of the country would not be likelyto reduce the required reserve of member banks more than 125 to 150 millions, if that; an inconsequential sum. It is to be observed that the issue of the additional amount of currency specified, if required, would reduce the reserves below the legal limit, and that without the grant of one dollar additional credit by the member banks.

see B11

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MEMORANDUM FOR THE DIRECTORS OF THE FEDERAL RESERVE BANK OF RICHMOND

BY
GEORGE J. SEAY GOVERNOR

Jan. 1928

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RESPONSIBILITY OF THE FEDERAL RESERVE SYSTEM
FOR THE
PRESENT CONDITION OF CREDIT INFLATION

That credit has been expanded to an extraordinary degree is a matter of fact which cannot be disputed. Whether credit inflation has been brought about is a matter upon which opinions may differ; nevertheless, there appear to be abundant facts to support the contention. It depends, first, upon the degree of expansion against our stock of gold and, second, upon the uses to which bank credit has been put.

Congressman Strong, sponsor for a bill which seeks to compel the Federal Reserve System to stabilize the purchasing power of money through the control of prices, stated, in effect, in a speech before the Stable Money Association in Washington on December 30, that if his bill had been in operation, the officers of the Federal Reserve System would not have permitted the extension of credit and low rates of discount and the purchase of Government sscurities, which made possible the continuation of inflation after the war, nor encouraged the deflation that followed. I am simply quoting Congressman Strong's statement without assuming responsibility for his opinion. I believe his bill to be a vicious one, but it has received and is receiving a most amazing amount of attention, and he contends that the hearings before his Committee constitute the best text book in existence on the Federal Reserve System. That also may be disputed.

It is, however, a fact that the Federal Reserve System was the instrument of expansion during the war and of inflation afterward. It was the System alone which rendered possible the financing of the war, but it was also the System which was responsible for inflation afterward, under influences which, perhaps, could not be controlled. After credit had become expanded in financing the war, as far as prudence, perhaps, should have gone, it afterward became expanded to an imprudent degree, until it was brought up against the limitation of reserves fixed by law.

The Federal Reserve System is now responsible for the expanded condition of credit, which I believe it is fair to call inflation, and whatever the influences which have tended to bring about the present state of expansion, the action of the System cannot be characterized otherwise than as deliberate, and the responsibilities for results are upon it.

The use of this expanded credit has been beneficent in very large part. It has aided us in financing the rehabilitation of the world, and it has fostered the growth of business and of construction in the country, but that it has gone too far or far enough is my belief.

Sir George Paish, well known in this country, formerly the editor of one of England's best known financial papers, is quoted in the TARIFF REVIEW for November as holding the view that in the United States the amount of credit has been expanded to unbelievable dimensions: that the greater part of new credit created by the new banking law and the gold imports has already been exhausted and banking credit in future must be on a much lower scale; and that should new credit continue to be created on the scale of recent years all available supplies will soon be used up. I believe that to be a fact susceptible to proof. Sir George Paish seems to be the only Englishman whose public utterances comprehend the fact that we have not only not sterilized or demonetized the gold which we have imported, as many writers claim, but that we have given it almost the greatest fertility possible.

Credit has been expanded to a degree practically as great as that which existed.

at the height of the inflation after the close of the war. Federal reserve credit has not been called on to the same extent; and, under conditions as they are, there remains a greater fund of unexpended credit power in the System than was the case at the height of expansion after the war. But measuring our expansion by the amount of the reserves of member banks in proportion to the volume of credit granted by them, or by the amount of our stock of gold in proportion to the bank deposits of the country, the degree of expansion is as great now as it was during the well known inflation period to which I have alluded, except for a part of the year of 1920 after so-called deflation had set in, and after we had lost about 300 million dollars net by gold export, when the ratio of our stock of gold to bank deposits and our money supply was at the lowest point reached in modern times (6.3%).

Our stock of gold is not only the reserve for the redemption of bank deposits but, also, for the redemption of all forms of our currency, and when considering the ratio which our gold stock bears to credit expansion, we should also include our total stock of money as well as the total amount of the individual bank deposits of the country. On June 30, 1920, the ratio of our stock of gold to these two forms of liability was only 6.3%. On June 30, 1918, two years previous, it was 9.13%. On June 30, 1921, when about 400 million dollars in gold had come back to us, the ratio was 7.5%. It rose to 8.6% on June 30, 1924, but it is now only 7.5%.

The degree of expansion can be illustrated in another way. On June 30, 1920, member banks had extended credit 14.2 times the amount of their reserve balances. On June 30, 1927, the amount of credit extended was equal to 14.7 times their reserve balances. On this latter date, they were not borrowing as much from the Federal reserve banks as they were in June, 1920. They were borrowing 2,831 millions in June, 1920 (total bills), and only 693 millions on the same date in 1927.* In 1920, however, the reason for their borrowing such a large amount was due to the extraordi-

* On Government Securities, 1920 ....$637 Million
" " " 1927 .... 274 "

nary demand for currency in the general circulation. The proceeds of their discounts had to be withdrawn in currency and could not be left to increase their reserve balances and thus enable them to still further expand their credit. This will be more fully explained later on.

To further illustrate the degree of expansion, or inflation, it will be stated that the amount of reserves carried by member banks, in relation to their total deposits, on June 30, 1920, was 7.24%; on June 30, 1927, it was only 6.45%. While the difference seems small in percentage, a better idea will be given to state that if they had been carrying on June 30, 1927, the same percentage of reserve (against total deposits) which they were carrying in 1920, it would have required about 280 million dollars more reserve. The reason why the percentage of reserve is so low at the present time is because of the extraordinary growth of time deposits, against which only 3% reserve is required.

To still further illustrate the degree of expansion, it will be stated that the cash reserve of all state nonmember banks on June 30, 1927 (figured from the Comptroller's reports), was only 3.3% of the individual deposit liabilities. This, of course, does not take into account balances with other banks, which are not a true reserve. On June 30, 1921, the cash reserves of these same nonmember state banks were 3.9% of the individual deposit liabilities.

Now, whether this growth of credit may be called expansion or inflation depends in very large measure upon the purpose to which it has been put. It has not been devoted to purposes of trade and commerce, at least, not directly, if at all. It has gone very largely into the purchase of securities and loans upon securities, -- which represent mainly all kinds of construction work, -- and in loans upon real estate. In other words, the whole of the increase in the amount of credit extended since June 30, 1921, has been for these purposes rather than for the purpose of financing current trade and commerce. This appears to be proved incontestably by an analysis of the classification of the loans and investments of member banks between 1921 and 1927. As nearly as may be determined, loans of member banks on securities between these two dates have increased about 3,250 millions and investments about 3,700 millions.

The loans on real estate of all member banks on June 30, 1927, had reached the amazing total of 2,900 millions. Going back to 1921, we find that the total of all loans made by national banks against real estate in all forms was only 280 million dollars. We have no statistical information of the loans of the state member banks on real estate at that time, but the total loans of these state member banks were only about one-third of the loans of national banks, and granting that the loans of these state members on real estate were as large as the loans of all the national banks, and so estimating the total real estate loans of all members at that time as 560 millions, it would indicate an increase of loans on real estate of nearly 2,400 millions. If that is the true condition, -- which is open to very little if any doubt, -- then, the loans for commercial purposes between June 30, 1921, and June 30, 1927, actually decreased about 500 million dollars. This is in line with a recent estimate made of the situation by Dr. Benj. M. Anderson, Economist of the Chase National Bank. He estimates that the the need of credit for commercial purposes is now only about 90% of what it was in 1919.

The causes of the expansion of credit are the following:

1. The large addition to our gold supply, which serves as a basis for expansion under the influence of other causes.
2. The creation of excess reserve balances, from time to time, by the rediscount of paper, by the sale of bills to Federal reserve banks, and by the use of Federal reserve funds in the market in the purchase of Government securities. There is always a considerable volume of paper under rediscount with Federal reserve banks, and while the average amount of

Federal reserve credit has fluctuated but little in the last three or four years, there is always an appreciable volume in use, and it has remained constant with a tendency to increase, while the credit power of the member banks has materially increased from other causes.

3. The diminished use and need of currency in relation to the volume of bank deposits.

4. The attenuation of required bank reserves by reason of the growth or classification of deposits as "time deposits."

Contributory Causes

5. The accumulation and employment in our money market of abnormally large foreign balances, which formerly would, doubtless, have been withdrawn, causing gold exports.

6. The present low discount rate.

These causes will be discussed in order.

1. The increase in our stock of gold during the period under review, 1921-1927, was 1,313 million dollars, or 40%. (Since June 30, the stock of gold has been decreased substantially by export and earmarking.) This gold naturally found its way in large part into Federal reserve banks, paying off borrowings in large part and creating excess balances, against which a large credit structure could be built up. The process is too well understood to need elaboration.

2. Aiding in the maintenance of this credit structure has been the continued employment of Federal reserve funds -- quite large in the aggregate -- in the money market. It is to be said that the volume of Federal reserve funds in use has not varied very widely since 1924 (except during short periods), but it has tended toward increase as shown in the following table:

Earning Assets Federal Reserve Banks

(In Millions)

June 30 --	1924	1925	1926	1927	December 21 -- 1927	1926
Bills Discounted and Bought,	$395	$ 697	$ 764	$ 693	$ 944	$1,103
Investments,	431	335	393	377	588	317
Total,	$826	$1,032	$1,157	$1,070	$1,532	$1,420

Earning assets of Federal reserve banks may be said to be acquired in two ways, by positive and voluntary action in making investments and by negative action in simply accepting paper offered for rediscount and purchase. As is well understood, member bank balances in Federal reserve banks, however created, whether by the deposit of gold, or any other acceptable funds, or by rediscounting, or by the sale of securities to Federal reserve banks, constitute reserve. It is upon excess reserve so created that credit can be expanded. The degree to which bank credit can be expanded against a dollar of excess reserve cannot be expressed in any formula. The process is too complicated and there are too many influences and cross currents at work. The limit of expansion is, of course, governed by the ability to maintain the required reserve against deposit liabilities, but deposits, taking the banking situation as a whole, are built up chiefly by or through the granting of loans. When loans are made, the proceeds are either passed to the credit of the borrower or he is paid in currency, or partly both; when he checks against his deposit (proceeds of his loan) or when he receives currency in payment, his check or the currency, as the case may be, finds its way into some other bank as a deposit.

3. Aiding very greatly in augmenting the quantity of bank credit possible to be issued is one influence to which little attention has been given, that is, the diminishing uses of currency in proportion to the volume of credit employed. The volume of currency used in the general circulation bears a close relation to the volume of credit in use or to the volume of bank deposits. The relation, however, is not a constant one. It would be more exact to say that it bears an intimate relation to the volume of credit granted for industrial purposes. That a great part of the bank credit recently granted was not for commercial or industrial uses is shown by lack of a corresponding increase in the currency circulation. In fact, there has been a decrease in the general circulation since 1921, as shown below. Enlarged payrolls, for whatever purposes, usually call for more currency. Extraordinary payments, such as those involved in war-time operations for all purposes,

require an enlarged volume of currency.

It has been recognized that, in considering what volume of credit could be granted or would naturally result from an initial increase in bank reserves, it would first be necessary to determine what portion of the increase would become absorbed for currency purposes. In the light of experience of former times, these estimates have varied very widely -- from two or three to one to ten to one. The actual ratio worked out in practice at different times varies so widely that it is useless to attempt to express it in a formula; we can only state results. To illustrate: Coincident with the addition of 223 million dollars to the stock of gold between June 30, 1925, and June 30, 1927, bank credit in use (total bank deposits) expanded 21½ to 1 of the increase. The gold went into the reserve banks and the amount of currency in general circulation increased only 29 million dollars between the dates mentioned. Furthermore, the amount of money in general circulation on June 30, 1921, was 4,819 millions, while on June 30, 1927, it was only 4,743 millions, a decrease of 76 millions, the amount of credit (total individual deposits all banks) having increased 17,408 millions in the meantime. Differences in the price level affect the volume of circulation.

It will be found upon examination that wide variations in the relation between the amount of currency in circulation and the volume of credit outstanding at given dates have always existed, and that the ratio has been a declining one for many years, with interruptions due to special causes. In 1910, the ratio of currency in general circulation to the volume of individual deposits was, approximately, 20%; in 1927, it was 9.08%. The following table will show the relation from 1918 to 1927:

June 30 -	1918	1921	1924	1925	1926	1927
			(In Millions)			
*Money in general Circulation (outside Treasury & F.R.Bks.),	$ 4,406	$ 4,819	$ 4,752	$ 4,714	$ 4,781	$ 4,743
Bank Credit - Individual Deposits all Reporting Banks,	27,808	34,842	43,619	47,466	49,537	52,250
Ratio Per Cent.,	15.84	13.83	10.9	9.93	9.65	9.08

*Treasury Revised Figures.

If currency requirements in proportion to the volume of bank deposits (sometimes called deposit currency) on June 30, 1927, had been as great as they were in 1921, we would have needed on June 30, 1927, a much larger volume of currency, estimated to be 2,483 million dollars, in addition to the amount then in general circulation, and even if the requirements had been only relatively as large as they were on a more recent date, say June 30, 1924, we would have needed an addition to our currency of 933 millions. There is only one source from which that additional amount of currency, if needed, could be obtained and that is from Federal reserve banks, and it could be obtained only in one way, by rediscounting and borrowing unless, possibly, by the sale of securities to Federal reserve banks. If the larger amount were added to the present circulation in Federal reserve notes and the other factors in the System statement of December 21 remained the same (except, of course, earning assets), the reserve ratio would have been reduced practically to the low point of 1920, and if the smaller amount of notes were added, the reserve ratio would have been reduced to 55%.*

Nothing appears in sight to call for such an increase in circulation. Should any extraordinary occasion arise which would demand it, it would, of course, have a far-reaching effect upon the credit supply. Annually an increased demand for currency springs up in the fall of the year, usually reaching its height in the holiday season, when the volume of Federal reserve notes in circulation increases about 200 million dollars. This currency usually flows back into the banks in January, and is deposited in Federal reserve banks and serves to pay off loans, through which it was obtained.

At the height of inflation, or in the latter part of 1920, the amount of bills discounted and bought by Federal reserve banks was more than 3,000 million dollars and the amount of Federal reserve currency outstanding in the neighborhood of 3,400 millions. Practically the entire proceeds of paper rediscounted with and bills sold to the Federal reserve banks was needed to meet the demands for currency. It

*It is to be noted that an increase in the currency circulation brought about in this way would not increase the degree of credit expansion of member banks here referred to unless it involved new loans. It would, of course, reduce the Federal reserve ratio, however, as stated.

is manifest that if the need for currency had not been so great and that if the member banks could have left the proceeds of rediscounts with the reserve banks to increase their balances instead of having to withdraw it in currency, only a small part of the borrowing then done would have been necessary, and the amount of credit which could have been granted would have been enormously greater without so seriously affecting the reserve ratio. So now upon a moderate increase in excess reserves, created by rediscounting or otherwise, a huge amount of credit in the aggregate can be extended, but if proceeds of rediscounts must be withdrawn in currency for employment in the general circulation, obviously, no increase in reserve balances will take place and the basis for the extension of credit will not be enlarged.

4. Between 1921 and 1927, the increase in time deposits of member banks has been considerably larger in amount than the increase in demand deposits (individual). The percentage of increase has been very much greater, as shown in the following tabulation:

	Individual Demand Deposits Member Banks	Time Deposits
	(In Millions)	
June 30, 1921,	$13,855	$ 6,366
" 30, 1927,	18,800	12,209
Increase,	$ 4,945 = 35.7%	$ 5,843 = 91.8%

There is little, if any, doubt that a very considerable proportion of deposits classified as "time" is to all intents and purposes the equivalent of demand deposits in character; by this, it is not meant to say that the law is being violated in classification.

If 10% of these "time" deposits is properly to be classified as demand, the additional reserve which would be required would be about 70 million dollars; if 20%, 141 millions; and if 25%, -- which is not believed to be, by any means, an extravagant estimate, -- 177 millions additional reserve would be required.

It is not an idle question whether bank reserves have become too attenuated, and it is to be doubted that, when reserve requirements were changed by the amendment to the Act in 1917, anybody thought they would eventually be reduced to the low average of 7.4% of deposit liabilities. Our gold supply, as great as it is cried out to be, is only 7.5% of the aggregate of individual deposit liabilities of all reporting banks and our total stock of money.

5.-- The Accumulations of Foreign Balances in this Country.

The Department of Commerce has estimated that the net amount of these balances due to foreigners at the close of 1926, notwithstanding our favorable trade balances for several years, was considerably in excess of a billion dollars. It is probably as great or greater now. While, so far as is known, there is no overhanging threat of withdrawal of these balances in volume, and while it may be -- and doubtless is -- to the present interest of foreign creditors to maintain these balances, it cannot be said that the control of the gold, into which the balances and investments could be converted, lies in our hands. Their balances, in large part at least, are said to figure in the reserve of foreign banks while being employed here.

6.-- The Discount Rate.

Little is needed to be said in this connection. The general assumption is that low interest rates foster industry. That is undoubtedly true within bounds. It is also true that the quantity of credit and currency in a country should bear a well-balanced relation to its economic development. Overbuilding and overspeculation and inflation of prices, in one direction or another, inevitably grow out of an excessive credit supply and accompany the excessive use of cheap credit for a prolonged period. Destructive competition and unsound investment in quest of profits, also, often accompany it, in the banking as well as in the industrial field; this is particularly true when unduly low interest rates are brought about artificially. Commerce and industry are supposed to have learned a lesson from costly experience in 1919 and 1920. We have, therefore, for that and other reasons avoided inflation of commodity prices, which affect the cost of living, but it is as plain as daylight that we have run deeply into inflation in other directions. There is no blinking the fact of credit inflation, tested by all banking standards.

How far is Sir George Paish justified in his statement that should new credit continue to be created on the scale of recent years all available supplies will soon be used up? What margin of safety have we? That depends upon the nature of the demand for credit. The total bank deposits of the country are about 52 billion dollars. If any emergency should arise which would call for the payment of as much as 5% of these deposits in currency (taking only 2,500 millions), which could only be procured from the Federal reserve banks and probably the only practical way of getting it would be by borrowing, it would bring the reserve ratio right up against the legal limit. It is true that the Reserve System could replenish its supply of gold by gathering in, if and when presented, the gold certificates which are now in general circulation, amounting to about one billion dollars. They would, however, have to substitute their own notes in like amount and 40% of the gold thus gathered in, or, say, 400 million dollars, would be required as reserve against the Federal reserve notes issued. If at the same time we should be called upon to export a billion dollars in gold, a very great further strain would be put upon the situation. That may be as much as to say that, if the skies were to fall, all the larks would be caught. It serves, however, to illustrate the unexpended credit power of the Federal Reserve System, and it is none too much in fair weather times. On the other hand, a relatively small addition to the aggregate amount of member bank reserves, whether created by borrowing or otherwise, will admit of expansion of credit at the rate of about 14 to 1 if worked up into deposits in the usual way, and from this point of view the unused credit power of the Federal Reserve System is very large. But we must always keep our eyes upon the stock of gold. Should we lose a billion dollars in gold from the stock which was held on June 30 and should other conditions in the bank statement remain the same, then, the ratio of our stock of gold to the amount of bank deposits and our stock of currency would be under 6%, a low ratio which has never yet been reached and there are few who would permit it to stand. This last eventuality is not even beyond the bounds of probability.

CONCLUSION.

After all is said, we must be judged by the final result: Credit has been expanded to approximately the highest ratio ever experienced; the resources of the banks have become less and less liquid; the excess of credit has been employed not for commercial purposes but for investment and speculative purposes; prices have become inflated -- not the prices of commodities but the prices of "capital goods," corporate securities, and real estate; speculation im securities under the influence of superabundant and cheap money has reached the highest level ever known during a time of trade reaction; and the stage seems set for further excesses and greater absorption of credit.

The avowed purpose of the employment of Federal reserve funds is to stabilize the supply of credit; the result has been to increase and ever increase it, beyond the apparent needs of commerce. The amount of Federal reserve credit deliberately put out has not increased notably, except for short periods, within the last few years, but it has not diminished as the market supply, by which is meant the total supply, has increased, that is, while the power of the banks of the country to supply credit was increasing from other causes. An increased supply of gold serves as a base for additional supply of credit. Federal reserve funds used in the open market serves the same end. The import of gold in the last six years apparently was a sufficient base for the supply of credit without the addition of investment funds from the Federal Reserve System. It is through the continued use of such funds that the supply and use of credit has become excessive. The use of Federal reserve funds has brought down the open market rate, and forced the reduction of the discount rate, thus bringing about an artificial situation.

Inflation grows by what it feeds upon. As in the case of the drug addict, more and more is needed to keep the economic body going. So while Federal reserve funds have been used to stabilize credit for short periods and prevent wide but temporary fluctuations in the interest rate, which usually serve to correct excesses, the use of these funds over a long period has brought about inflation of credit. Whatever purposes were sought, this is the result. Whether the good balances the ill effect and the possible ills yet to come -- and apparently imminent -- may be a matter of opinion. I am not unacquainted with the argments and the purposes which it was sought to achieve. For one thing, it is argued that in using bank funds for investments and for loans on securities to so great extent, the banks are now investment institutions and but act as intermediaries between depositors and the vendors of securities, employing their time deposits in this way, and that the amount so invested and loaned is but a small percentage of the new securities issued. There is something in this contention, but it is not sound by any means. To the extent that securities have been issued for the purpose of raising permanent working capital, the banks of the country have been relieved of demands upon them for current working purposes -- that much is true; but their liability against deposits remains. Moreover, the banks by expanding their credit, through Federal reserve credit injected into the market, create deposits, potential purchasing power, and thus originate the funds which they later put into securities, and so the chain lengthens out. It is also argued that, in creating a plentiful supply of credit and low interest rates, we have avoided still further gold imports, which would have accomplished further expansion of credit in any event. In view of the accumulation of tremendous exchange balances here, a Scotch verdict may be rendered against that contention -- not proven. Means were undoubtedly available to avoid the export of gold to this country, which in the long run would have proved less disadvantageous to this country than the present course is apt to prove. If the foreigners choose to let gold come, it will come; if they choose to call for the gold represented by their balances, they can get it.

There are two ways to correct the present situation: first, by the sale of the investment securities of the System, and, second, by raising the discount rate. It seems to me time to apply a moderately corrective influence by means of the discount rate, and I am of the opinion that the rate of this bank should now be raised.

RICHMOND, VIRGINIA,
January 6, 1928.