

The Papers of Charles Hamlin (mss24661)

362_07_001-

Hamlin, Charles S., Scrap Book – Volume 196, FRBoard Members

205.001 - Hamlin Charles S
Scrap Book - Volume 196
FRBoard Members ✓

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CONFIDENTIAL (F.R.)

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date July 31, 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 196 of Mr. Hamlin's scrap book and placed in the Board's files:

VOLUME 196

Page 22

Memo to Mr. Hamlin from Mr. Smead re Ratio of total deposits to combined capital and surplus.

Page 23

Memo to Board from Mr. McClelland attaching preliminary memo on credit conditions considered by Open Market Inv. Committee.

Page 24

Letter to Mr. Hamlin from Mr. Wyatt.

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Letter to Mr. Hamlin from Gov. Young re Preliminary Memorandum for the Open Market Investment Committee, September 24, 1929.

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Memo to Board from Mr. Smead re Branches of member and nonmember banks.

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Memo to Gov. Young from Mr. Goldenweiser re Effects of security purchases.

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Reserve Bank Credit - Factors in Changes. (Memo of Mr. Goldenweiser to Mr. Hamlin.)

Page 97

Memo to Board from Mr. Wyatt re Ownership of Bank Stocks by Holding Companies.

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Earnings & Expenses of F.R. Banks, September 1929.

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Memo to Mr. Goldenweiser from Mr. Gardner - "The Present Gold Situation".

Office Correspondence

FEDERAL RESERVE
BOARD

Date September 20, 1929

To Mr. Hamlin

Subject: Ratio of total deposits to combined capital and surplus

From Mr. Smead

2-406
976

I have examined the condition reports of the large banks in New York City and find that on June 29, 1929 their deposits in the majority of cases run about five or six times their combined capital and surplus. I am listing below 11 of the larger member banks in New York City showing their capital and surplus, total deposits, and the ratio of deposits to capital and surplus:

<u>Trust Companies</u>	<u>Capital and Surplus</u> (In thousands of dollars)	<u>Total Deposits</u>	<u>Ratio</u>
Bankers Trust Company	75,000	471,923	6.3 to 1
Central Hanover Bank and Trust Co.	81,000	463,587	5.7
Equitable Trust Company	50,000	332,409	6.6
Guaranty Trust Company	160,000	897,622	5.6
Irving Trust Company	115,000	534,308	4.6
Manufacturers Trust Company	55,000	376,671	6.8

<u>National Banks</u>	<u>Capital and Surplus</u> (In thousands of dollars)	<u>Total Deposits</u>	<u>Ratio</u>
Bank of America, N. A.	71,275	249,245	3.4 to 1
Chase National Bank	122,000	812,992	6.7
Chatham Phenix National Bank	22,500	236,600	10.5
First National Bank	100,000	340,917	3.4
National City Bank	220,000	1,137,901	5.2

When it comes to the smaller banks in New York City I find that several of them have deposits equal to slightly more than 10 times their capital and surplus but none of them as much as 12 times. For example, the deposits of the Amalgamated Bank (\$11,700,000) are 11.7 times the bank's combined capital and surplus, of the Fidelity Union Trust Company (\$128,500,000) 10.7 times, and of the Fifth Avenue Bank (\$26,100,000) 10.4 times.

We made a brief examination of the reports for some of the other banks and I am giving below a table showing figures for five banks in the Minneapolis and San Francisco districts each of which have deposits equal to more than 20 times their capital and surplus.

	<u>Capital and Surplus</u> (In thousands of dollars)	<u>Total Deposits</u>	<u>Ratio</u>
Metals Bank & Trust Co. Butte, Mont.	1,000	21,852	21.9 to 1
Daly Bank and Trust Co. Anaconda, Mont.	200	5,228	26.1
Anglo-Calif. Trust Co. San Francisco, Cal.	3,500	70,262	20.1
First Security Bank Pocatello, Ida.	150	3,027	20.2
First Security Bank Bingham Canyon, Utah	29	848	29.2

Office Correspondence

FEDERAL RESERVE
BOARD

See Bk

Date September 25, 1929

To Federal Reserve Board (Individually)

Mr. Hamlin.

Subject: _____

From Mr. McClelland.

2-8495
GPO

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There is attached hereto copy of the preliminary memorandum on credit conditions (charts not included) which was considered by the Open Market Investment Committee at its meeting yesterday, together with a copy of the recommendation which the Committee made to the Board.

VOLUME 196
PAGE 23

The Committee has reviewed a preliminary memorandum and current credit conditions. During the past eighteen months interest rates in this country have gradually risen and money, especially for new undertakings, has become more difficult to obtain. While business continues at a high level, there are some indications of a possible impending recession.

Rates in many foreign centers have risen even more markedly and the loss of reserves of central banks threaten further increases in rates and probable curtailment of Europe's capacity to buy this country's products.

In accordance with the System policy adopted on August 8th seasonal requirements for Federal Reserve credit have been met by bill purchases, and in fact such purchases have been sufficient to reduce rediscounts to some extent.

For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit, the Committee favors a further increase of the open market holdings of the Federal reserve banks. It favors an increase of these holdings by the continued purchase of bills if they can be obtained in sufficient amounts to accomplish this purpose. If bills cannot be obtained in sufficient amounts without interfering with the present desirable distribution, it favors the purchase of Government certificates of the short maturities.

The Committee therefore recommends that it be authorized to purchase not to exceed \$25,000,000 a week of such certificates, for account of such banks as care to participate, with the understanding that such purchases be made only under the conditions above stated, and with the further understanding that there be careful current review of the consequences of such purchases, in order that there may be another meeting with the Board at any time that that may seem advisable either to the Board or to the Committee. In any event, the Committee feels that there should be another such meeting not later than November 1.

Preliminary Memorandum for the Open Market Investment Committee
September 24, 1929.

At a meeting of the Governors of all Federal reserve banks at Washington, D. C., on August 7 and 8, the following resolution was adopted:

"It is the judgment of the Governors that the demand for increased credit incident to the autumn requirements of crop moving and business should be met, so far as possible, by an increase of the bill portfolio of such banks as care to participate in bill purchases.

"The Governors are also of the opinion that this procedure can best and most safely be undertaken, and with least risk of abuse in the use of Federal Reserve credit, under the protection of an effective discount rate in the New York district.

"They are further led to this conclusion by the expressed belief that an increase in the discount rates of the Federal Reserve Bank of New York would necessitate increases in few, if any, of the other Federal reserve banks during the period of seasonal business demand; and the desire of the directors and officers of all other Reserve banks to avoid increases, if possible. It is, therefore, recommended that the Reserve Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate."

This resolution was approved by the Federal Reserve Board and on August 8 the Federal Reserve Bank of New York raised its discount rate from five to six per cent and reduced its buying rate for bills from $5 \frac{1}{4}$ to $5 \frac{1}{8}$ per cent.

In the six weeks which have elapsed since the adoption of the program, seasonal demands for Federal reserve credit have been entirely met by increases in holdings of bankers acceptances by the Federal reserve banks. In fact, from the statement of August 7 to that of September 18, the total amount of Federal reserve credit outstanding has increased \$57,000,000, the amount of bankers acceptances held has increased \$162,000,000, discounts of member banks have decreased \$130,000,000, and holdings of government securities have increased \$20,000,000, due to an increase in holdings of securities under sales contract. The statement for September 18 shows total bills discounted of \$934,000,000, equivalent to 68.5% of total bills and securities, compared with \$1,064,000,000 on August 7, equal to 81% of total bills and securities.

The accompanying diagram shows that the increase in the total of Federal reserve credit since the last week of July, when the seasonal expansion normally begins, has been almost in accordance with the normally to be expected increase on the basis of previous experience.

A second diagram shows the changes in System holdings of bankers acceptances for the past three years, and shows that during August System holdings increased more rapidly than last year, but since then have about kept pace with the figures for the past two years. During current week, however, there appears to have been a noticeable decline in the rate of increase in bill holdings.

It is still early to pass judgment fully on the effects of the policies adopted. The immediate psychological effect of the rate change passed quickly. Since then there has been some evidence that the economic consequences of these policies may be of considerably greater importance.

Effects on Money Rates. The following table compares open market money rates on September 23 with corresponding rates in the first week of August and indicates that except for a slightly firmer tendency in commercial paper and in time money there has been no appreciable change in interest rates.

Money Rates at New York

	First Week August 1929	Sept. 20, 1929
Stock Exchange call loans	8 - 12	8
Stock Exchange 90 day loans	8 3/4 - 9	9
Prime commercial paper	6	6 1/4
Bills - 90 day unindorsed	5 1/8	5 1/8
Customers' rates on commercial loans	*6.00	6.07
Treasury certificates and notes		
Maturing December 15	4.79	4.54
Maturing March 15	4.56	4.51
Fed. Res. Bk. of New York rediscount rate	5	6
Fed. Res. Bk. of New York buying rate for 90 day bills	5 1/4	5 1/8

*Average rate of leading banks at middle of August; July rate 5.80

An analysis of the rates actually charged by commercial banks to their commercial customers in the second district indicates practically no change in the rates charged by banks outside of New York City which are generally uniform at 6 per cent. In the cities 6% is the commonest rate. A slight movement upward is shown in the fact that fewer loans are made at 5 1/2 and 5 3/4 per cent, and possibly a few more are made at rates above 6 per cent. Thus the average of rates is fractionally higher on that account, continuing an upward tendency which has been reflected in an increase month by month from 5.50 per cent in February to 6.07 in September, as indicated by reports of ten New York City banks.

Effect on Member Bank Position. Since the rate increase there has been little net change in the total loans and investments of reporting member banks, in spite of an increase of \$230,000,000 in commercial loans. This increase has been about offset by a decline of \$140,000,000 in collateral loans and \$110,000,000 in investments. Brokers loans have continued to expand and are now \$549,000,000 higher than they were early in August when the discount rate was increased. But this increase has been largely in loans for account of others and in fact of a decline in the total loans on collateral by reporting member banks.

In a number of ways the statistics appear to reveal an attitude on the part of member banks generally. The following points are interesting.

1. Bank loans on collateral have declined during a period when brokers loans were rising steadily.
2. Funds made available to member banks by Federal reserve acceptance purchases in excess of seasonal needs were used entirely to reduce indebtedness at the Reserve banks. There was no increase in bank credit.
3. Decreases in rediscounts have not yet been reflected in any easing in money rates, although, as illustrated by the attached chart, we might expect that a continued reduction in total volume of discounts will ultimately tend to decrease interest rates.

All these appear to show an unwillingness of the banks to continue in debt and a vigorous and general attempt to liquidate this debt.

Effect on Movement of Funds. Following the increase of discount rate at New York a considerable flow of funds from other districts was a possible danger which might have forced other Reserve banks to protect their reserves. In the week immediately following the rate change there was some movement to New York, but this was of short duration and was followed by a loss of funds following much the usual seasonal course.

This result is probably ascribable to the fact that the discount rate was already so far below market rates that the increase had little effect on market rates.

On the other hand funds made available by the purchase of acceptances have largely gone to liquidate discounts at the New York Reserve Bank and discounts at other Reserve banks have followed much the usual seasonal course. The rate change has apparently had little effect on the movement of funds between the United States and Europe. Confidential reports to the New York bank indicate a slight increase in foreign balances between the end of July and the end of August, but this increase cannot be attributed to higher rates in this market, for it took altogether the form of an increase in holdings of bankers acceptances and Treasury certificates the yields on which have not increased. There was, moreover, a decrease of \$24,000,000 in the amount of foreign funds employed on time or call in this market, the first decrease that has occurred in this account for some time. It is perhaps significant that it accompanied a level of call money rates slightly lower than had prevailed for some months previous.

The European Situation. The flow of gold from Europe has continued at about the same rate as before the policies of August 8 were adopted. Since that time the Bank of England has lost an additional \$22,000,000 (Mostly to France and Germany) of gold and its reserves have been reduced from £141,400,000 to £136,900,000. While there have been no market changes in European money

rates, the indications are that the pressure upon Europe due to high money rates, is becoming constantly more intense and is tending to retard industrial and business development. August figures show an unseasonal decline in United States exports, though a single month's figures are not sufficient to indicate a trend. There is evidence of a banking up of wheat in shipping centers which is probably attributable in part at least to a restraint on the part of foreign buyers.

The Domestic Business Situation. Business is still operating at a high level, above any of the computed "normal" lines based on previous years experience and allowing for growth. In recent weeks, however, there has been a declining tendency in a number of basic industries. Building activity has been reduced still further; automobile production has been receding, and steel production has reflected these tendencies. These recessions have not, however, progressed far enough to warrant definite conclusions as to the trend.

Agricultural Conditions. The size of the year's crops is expected to be generally smaller than a year ago. With higher prices the total return to the farmer may be not short of a year ago, but certain sections of the country have suffered severely through the drought. The continued pressure on the credit situation has also been reflected by increasing reports from some localities of difficulties of agriculture in securing an adequate supply of credit.

See An

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

September 20, 1929.

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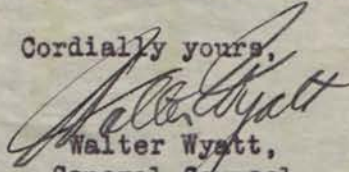
Honorable C. S. Hamlin,
Washington, D. C.

My dear Mr. Hamlin:

I have read hastily, but with much enjoyment, your very delightful and appropriate review of Professor Lawrence's book "Wall Street and Washington". I shall not venture to offer any suggestions, because I am the last person in the world who would undertake to "paint a lily". However, I am enclosing for your information a copy of the opinion of the United States Circuit Court of Appeals in the Raichle case with the thought that possibly you might find some additional ammunition in that opinion. I don't think you need any additional ammunition and do not know where any reference to this case would be appropriate in your review, except possibly in connection with the discussion of the question whether member banks are entitled to rediscount with the Federal reserve bank without any restrictions whatever and in connection with the question whether the member banks are the masters of the Federal reserve banks. I have marked certain portions of the opinion which may be of especial interest to you and call your particular attention to the statement on page 18 that, as to the matters complained of in that case, the Federal reserve bank is a Governmental agency under the direction of the Federal Reserve Board.

Hastily, but with all best regards, I am

Cordially yours,


Walter Wyatt,
General Counsel.

Enclosure

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FEDERAL RESERVE BOARD

WASHINGTON

OFFICE OF GOVERNOR

September 27, 1929.

Dear Governor Hamlin:

I am sending you herewith (1) Preliminary memorandum of the Open Market Investment Committee; (2) Statement and recommendation of the Open Market Investment Committee and (3) Letter which I have dictated to Governor Harrison.

I would appreciate it very much if you would read the preliminary report bearing in mind that the conclusions arrived at by some of the figures which are furnished are debatable. I do not mean by that that the figures are erroneous, but I do mean that similar figures taken a week earlier or a week later might show quite a different picture. Please also bear in mind that my letter to Governor Harrison has not yet been acted upon by the Board, or despatched to Governor Harrison.

I intend to present the letter to the Board just as soon as I can get an expression from various members. The Secretary of the Treasury has approved the letter; also the Comptroller of the Currency and Mr. Platt. Mr. James is opposed to buying any Government securities and Mr. Cunningham has not as yet committed himself. I was able to get Dr. Miller on the telephone but I was limited in what I could say over the phone and, therefore, I have no expression from him. I do not want to ask you to make an unnecessary trip to Washington and I would therefore appreciate it very much if you would call me as soon as you can tomorrow morning and let me have your views.

I have deliberately postponed action on the Committee's recommendation because I did not want to take advantage of anyone's absence, but I am afraid if it is delayed too long, it will subject us to just criticism.

With kind personal regards to both you and Mrs. Hamlin, believe me to be

Yours sincerely,

R. A. Young
R. A. Young.

To: Federal Reserve Board

SUBJECT: Branches member and non-

From: Mr. Smead

member banks, June 30, 1929.

St. 6335

Following the usual practice the Federal reserve agents were requested to furnish the Board with a complete statement of changes in branch banking during the fiscal year ending June 30, 1929. Reports from the agents have been received and tabulated and this Division now has on file a list of all banks operating branches as of June 30, 1929, together with the location of the branches.

Branch Banking Since June 30, 1928. During the 12 month period between June 30, 1928, when the last report on branches of member and nonmember banks was submitted to the Board, and June 30 of the present year the number of banks operating branches declined from 835 to 818 or by 17, while the number of branches in operation increased from 3,230 to 3,440 or by 210. Although as just stated there was a decrease during the year of 17 in the number of banks operating branches, there were 56 banks operating branches on June 30, 1928, which had no branches in operation a year earlier. This is accounted for by the fact that 51 banks which were operating branches in June 1928 went out of existence during the year through merger with other banks, 5 banks suspended operation on account of financial difficulties, and 17 abolished their branches. Of the 3,230 branches that were in operation on June 30, 1928, 96 were discontinued during the year, 81 were abolished or merged with other branches, and 15 went out of existence as a result of suspension of the parent bank. There were 306 branches in operation on June 30, 1929 that were not in existence on June 30, 1928, including 171 established de novo, and 135 that succeeded independent banks. These changes in branch banking as well as the changes since the passage of the McFadden Act are summarized as follows:

	June 30 1929	June 30 1928	Feb. 25 1927
Total number of banks operating branches	818	835	779
Total number of branches in operation	3,440	3,230	2,900
	June 1928 to June 1929	February 1927 to June 1929	
<u>Change in number of banks operating branches</u>			
Banks not previously operating branches	+ 56	+ 165	
Banks (operating branches) that went out of existence through -			
Mergers (net)	- 51	- 90	
Suspensions	- 5	- 9	
Banks which discontinued all branches	- 17	- 27	
Net change	- 17	+ 39	
<u>Changes in number of branches in operation</u>			
De novo branches established	+171	+ 429	
Banks converted into branches	+135	+ 279	
Branches abolished or merged with other branches	- 81	- 145	
Branches discontinued through suspension of parent bank	- 15	- 23	
Net change	+210	+ 540	

Large size Branch Bank Systems. At the end of June 1929 there were 17 banks which had 30 or more branches in operation as compared with 14 a year earlier. Owing to mergers, four banks which appeared in the list last year are not on the present list. The United Security Bank and Trust Company of San Francisco with 53 branches and the Merchants National Trust and Savings Bank of Los Angeles with 34 branches merged to form the Bank of America of California, a nonmember which had 140 branches on June 30. The Los Angeles-First/Trust & Savings Bank with 97 branches merged with the Security Trust and Savings Bank of Los Angeles with 53 branches to form the Security First National Bank which reports 144 branches on June 30. The Bank of United States, New York, which was operating 14 branches last year is now operating 56, having taken over the Municipal Bank of Brooklyn with 19 branches, the Colonial Trust with 15 branches, and the Cosmopolitan Bank with 3 branches. The Manufacturers Trust Company, National City Bank, Public National Bank and the Bank of America, N. A., appear in the list for the first time.

Below is a list of the banks that had 30 or more branches on June 30, 1929:

<u>Number of branches</u>	<u>Location and name of parent bank</u>	
285	San Francisco	Bank of Italy Nat. Tr. & Sav. Assn.
96	"	American Trust Company
144	Los Angeles	Security-First National Bank
140	"	Bank of America of Calif. (nonmember)
54	"	California Bank (nonmember)
94	Detroit	Peoples-Wayne County Bank
31	"	First National Bank
31	"	Peninsular State Bank
66	New York	*Corn Exchange Bank
61	"	Bank of Manhattan Company
56	"	Bank of United States
46	"	Manufacturers Trust Company
33	"	*National City Bank
33	"	Public National Bank
32	"	Bank of America, N. A.
52	Cleveland	Cleveland Trust Company
33	Buffalo	Marine Trust Company

*Corn Exchange Bank to be taken over by National City Bank about December 1929.

Branch Banking Since the Passage of the McFadden Act. The first reasonably complete figures we have regarding branch banking are as of June 30, 1924. We shall therefore briefly refer to the changes in branch banking from that date up to the passage of the McFadden Act, February 25, 1927, and since that time, bringing out two important points in connection with the development of branch banking since the passage of that act, that is the location of the branches and the method of their establishment.

St. 6335

The following table shows by classes of banks the number of banks operating branches and the number of branches in operation on June 30, 1929 with changes during the past year, since February 25, 1927, the date of the passage of the McFadden Act, and since June 30, 1924.

	June 30 1929	June 1928 to June 1929	Increase Feb. 1927 to June 1929	June 1924 to Feb. 1927
<u>Number of banks operating branches</u>				
Total	818	*17	39	65
National banks	164	* 5	19	37
State bank members	190	4	1	*2
State bank nonmembers	398	*17	11	-
Mutual savings banks	62	4	12	22
Private banks	4	*3	*4	**
<u>Number of branches</u>				
Total	3,440	210	540	607
National banks	993	52	603	142
State bank members	1,298	78	*262	423
State bank nonmembers	1,046	73	183	*45
Mutual savings banks	96	10	20	**
Private banks	7	*3	*4	**

*Decrease.

**Not tabulated separately - included with state bank nonmembers.

In the number of banks operating branches there has been a growth of 39 since the passage of the McFadden Act as compared with an increase of 65 for the 32 months preceding its enactment. The smaller increase during the recent period was due largely to mergers between banks operating branches, the merger movement actually resulting in a decrease in the number operating branches during the past year. Fifty-one banks with branches have merged with other banks since June 30, 1928 and 90 banks since Feb. 25, 1927.

It is noteworthy that the number of branches in operation increased by 607 from June 1924 to February 1927 and by 540 from February 1927 to June 1929, indicating that the rate of growth of branch banking in the United States has not increased since the passage of the McFadden Act. However, there has been an increase of 603 in the number of branches of National banks since the passage of that Act as compared with an increase of but 142 from June 1924 to February 1927. This is principally accounted for by the fact that a few of the larger state bank members operating a considerable number of branches converted into or merged with national banks, the outstanding cases being the Bank of Italy which had 278 branches at the time of its conversion into a national bank and the Pacific Southwest Trust & Savings Bank of Los Angeles, which at the time of its merger with the First National Bank of Los Angeles had about 100 branches.

St. 6335

Location of branches. The conversion of state member banks into national banks also accounts for the large increase since the passage of the McFadden Act in the number of outside branches operated by national banks. The number of such branches increased by 315, while the number operated by state bank members declined by 355, a net decrease of 50 in the number of outside branches operated by member banks. There was during this 28 month period an increase of 183 in the number of branches operated by state bank nonmembers of which 155 were outside the head office city. Changes in the mutual savings and private banks were relatively small.

	Number of branches			Change since	
	June 1929	June 1928	June 1927	June 1928	Feb. 25 1927
National - total	993	+52	+603		
In head office city	650	+47	+288		
Outside head office city	343	+ 5	+315		
State members - total	1,298	+78	-262		
In head office city	1,155	+96	+103		
Outside head office city	143	-18	-365		
Nonmembers - total	1,046	+73	+183		
In head office city	477	- 2	+ 28		
Outside head office city	569	+75	+155		
Mutual Savings - total	96	+10	+ 20		
In head office city	80	+ 9	+ 18		
Outside head office city	16	+ 1	+ 2		
Private - total	7	- 3	- 4		
In head office city	-	- 2	- 4		
Outside head office city	7	- 1	-		
Total - all banks	3,440	+210	+540		
In head office city	2,362	+148	+433		
Outside head office city	1,078	+ 62	+107		

Method of establishing branches. At the end of June 1929 there were 3,440 branches in operation, for 153 of which the method of establishment has not been reported. Of the remaining 3,287, 2,329 or about 70 per cent were established de novo and 958 or 30 per cent represent independent banks taken over and converted into branches. Since the passage of the McFadden Act there has been an increase of 333 de novo branches of which 263 are maintained by member banks, and an increase of 223 converted branches of which 90 are maintained by member banks. These changes are summarized in the following statement.

(St. 6335)

	Number of branches	Change since	
	June 1929	June 1928	Feb. 25 1927
National	993	+ 52	+ 603
De novo (as branches)	614	+ 26	+ 335
Independent banks purchased	354	+ 28	+ 266
Not reported	25	- 2	+ 2
State members	1,298	+ 78	- 262
De novo (as branches)	962	+ 61	- 72
Independent banks purchased	295	+ 19	- 176
Not reported	41	- 2	- 14
Nonmember state banks	1,046	+ 73	+ 183
De novo (as branches)	676	+ 20	+ 49
Independent banks purchased	307	+ 57	+ 133
Not reported	63	- 4	+ 1
Mutual savings banks	96	+ 10	+ 20
De novo (as branches)	74	+ 9	+ 21
Independent banks purchased	2	+ 1	-
Not reported	20	-	- 1
Private banks	7	- 3	- 4
De novo (as branches)	3	- 1	-
Independent banks purchased	-	-	-
Not reported	4	- 2	- 4
Total - all banks	3,440	+210	+540
De novo (as branches)	2,329	+115	+333
Independent banks purchased	958	+105	+223
Not reported	153	- 10	- 16

Attached hereto are the following tables:

1. A summary for the United States as a whole
2. Number of banks in each state which were operating branches and the number of branches in operation as of June 30, 1929, June 30, 1928, February 25, 1927 and June 30, 1924
3. Number of banks, by classes and by states, operating branches on June 30, 1929, and the number of branches in operation

Establishment of "outside" branches in States in which branches are restricted by law is permitted within the county in which the head office is located in Louisiana and Tennessee, within the same county and adjoining counties in Maine, within contiguous territory in Ohio, and within 15 miles of the parent bank in Massachusetts in the case of mutual savings banks. Other "outside" branches in this group as well as branches in operation in States in which branch banking is prohibited were either established prior to the restrictive or prohibitory legislation or are branches of private banks not under State supervision.

DIVISION OF BANK OPERATIONS
OCTOBER 1, 1929

St. 6335

TABLE 1. - SUMMARY OF BRANCH BANKING IN THE UNITED STATES

st. 6321

	June 30 1929	June 30 1928	Feb. 25 1927	June 30 1924
NUMBER OF BANKS				
Total	25,115	25,950	*26,973	28,996
Operating branches	818	835	779	714
By classes of banks:				
National banks	164	169	145	108
State bank members	190	186	189	191
State bank nonmembers	398	415	387	387
Mutual savings banks	62	58	50	28
Private banks	4	7	8	(a)
By location of branches:				
Only in head office city	518	526	476	391
Only outside " " "	252	262	261	283
Both in and outside head office city	48	47	42	40
By population (in 1920) of cities in which parent banks are located:				
100,000 or more	359	372	353	
50,000 to 100,000	84	81	65	
25,000 to 50,000	70	66	61	
Less than 25,000	305	316	300	
By size of branch systems:				
1 branch	443	469	446	
2 branches	153	150	127	
3-5 branches	130	126	124	
6-10 branches	37	35	35	
Over 10 branches	55	55	47	
NUMBER OF BRANCHES				
Total	3,440	3,230	2,900	2,293
In head office city	2,362	2,214	1,929	1,508
Outside head office city	1,078	1,016	971	785
By classes of banks				
National banks	993	941	390	248
State bank members	1,298	1,220	1,560	1,137
State bank nonmembers	1,046	973	863	908
Mutual savings banks	96	86	76	(a)
Private banks	7	10	11	(a)
Method of establishment:				
De Novo (as branches)	2,329	2,214	1,996	
Independent banks purchased and converted into branches	958	853	735	
Not reported	153	163	169	

*March 1927.

(a) Not separately tabulated; included with "state bank nonmembers."

TABLE 2 - NUMBER OF BANKS OPERATING BRANCHES AND NUMBER OF BRANCHES
IN OPERATION, JUNE 1924 - JUNE 1929, BY STATES

St. 6321

	Number of banks operating branches				Number of branches			
	June	June	Feb.	June	June	June	Feb.	June
	30	30	25	30	30	30	25	30
	1929	1928	1927	1924	1929	1928	1927	1924
UNITED STATES								
Total	818	835	779	714	3,440	3,230	2,900	2,293
National	164	169	145	108	993	941	390	248
State member	190	186	189	191	1,298	1,220	1,560	1,137
State nonmember	398	415	387	387	1,046	973	863	908
Mutual savings	62	58	50	28	96	86	76	*
Private	4	7	8	*	7	10	11	*

State wide branch banking permitted

Total	215	228	226	237	1,265	1,215	1,120	835
Arizona	7	8	8	6	22	23	23	20
California	54	63	72	99	861	826	762	538
Delaware	7	5	5	5	12	13	14	18
Dist of Col.	11	12	10	11	23	22	20	19
Maryland	33	32	35	27	125	120	113	88
North Carolina	42	43	40	40	77	79	74	66
Rhode Island	11	11	11	9	35	33	29	21
South Carolina	12	15	8	9	50	36	25	20
Virginia	38	39	37	31	60	63	60	45

No branches in operation: West Virginia, Wyoming.

Branches restricted as to location

Total	562	561	505	426	2,087	1,923	1,687	1,344
Kentucky	9	8	5	4	26	25	13	12
Louisiana	42	43	41	34	108	111	106	93
Maine	24	22	24	23	61	54	54	47
Massachusetts	86	81	79	61	154	141	133	98
Michigan	61	64	68	63	433	422	401	332
Mississippi	11	11	11	11	25	25	25	25
New Jersey	53	50	14	14	103	82	21	21
New York	106	112	106	77	682	607	517	362
Ohio	58	59	53	51	259	250	231	203
Pennsylvania	81	84	82	67	169	145	131	98
Tennessee	31	27	22	21	67	61	55	53

Branch banking prohibited by law**

Total	41	46	48	51	88	92	93	114
Alabama	5	5	5	5	19	19	19	19
Arkansas	2	2	2	2	3	3	3	3
Florida	-	-	-	1	-	-	-	1
Georgia	16	19	21	21	34	37	39	53
Indiana	4	4	4	4	9	9	8	8
Minnesota	2	2	2	3	6	6	6	11
Nebraska	2	2	2	2	2	2	2	2
Oregon	1	1	1	1	1	1	1	1
Washington	3	4	4	5	5	6	6	7
Wisconsin	6	7	7	7	9	9	9	9

No branches in operation: Colorado, Connecticut, Idaho, Illinois, Iowa, Missouri, Montana, Nevada, New Mexico, Texas, Utah.

No provision in State law regarding branch banking

No branches in operation: Kansas, New Hampshire, Vermont, North Dakota, South Dakota, Oklahoma

*Not separately tabulated.

**Branches reported were established prior to prohibitory legislation.

TABLE 3 - BANKS OPERATING DOMESTIC BRANCHES ON JUNE 1, 1929 - BY STATES 45

St. 6321

States	Number of banks operating branches				Number of branches					
	Total	Na-tional	State mem-bers	Non-members	Total	Operated by			Location	
						Na-tional banks	State bank mem-bers	Non-member banks	In head office city	Out-side H.O. city
UNITED STATES	818	164	190	464	3,440	993	1,298	1,149	2,362	1,078

State wide branch banking permitted

Total	215	38	26	151	1,265	535	194	536	485	780
Arizona	7	-	2	5	22	-	12	10	-	22
California	54	13	6	35	861	488	109	264	330	531
Delaware	7	-	2	5	12	-	2	10	3	9
Dist of Col.	11	5	-	6	23	11	-	12	23	-
Maryland	33	3	2	28	125	8	22	95	68	57
North Carolina	42	4	5	33	77	6	10	61	11	66
Rhode Island	11	2	4	5	35	2	26	7	16	19
South Carolina	12	3	2	7	50	8	2	40	7	43
Virginia	38	8	3	27	60	12	11	37	27	33

No branches in operation: West Virginia, Wyoming

Branches restricted as to location

Total	562	114	155	293	2,087	425	1,089	573	1,839	248
Kentucky	9	4	2	3	26	10	13	3	24	2
Louisiana	42	1	7	34	108	8	40	60	52	56
Maine	24	-	1	23	61	-	3	58	6	55
Massachusetts	86	16	16	54	154	54	32	68	135	19
Michigan	61	10	30	21	433	69	306	58	430	3
Mississippi	11	1	-	10	25	1	-	24	1	24
New Jersey	53	17	19	17	103	33	39	31	93	10
New York	106	31	40	35	682	172	446	64	681	1
Ohio	58	8	24	26	259	13	177	69	228	31
Pennsylvania	81	18	16	47	169	42	33	94	161	8
Tennessee	31	8	-	23	67	23	-	44	28	39

Branch banking prohibited by law*

Total	41	12	9	20	88	33	15	40	38	50
Alabama	5	-	1	4	19	-	1	18	-	19
Arkansas	2	-	-	2	3	-	-	3	-	3
Georgia	16	4	3	9	34	16	4	14	11	23
Indiana	4	1	1	2	9	2	5	2	8	1
Minnesota	2	2	-	-	6	6	-	-	6	-
Nebraska	2	2	-	-	2	2	-	-	2	-
Oregon	1	1	-	-	1	1	-	-	-	1
Washington	3	1	1	1	5	2	2	1	3	2
Wisconsin	6	1	3	2	9	4	3	2	8	1

No branches in operation: Colorado, Connecticut, Florida, Idaho, Illinois, Iowa, Missouri, Montana, Nevada, New Mexico, Texas Utah

No provision in State Law regarding branch banking

No branches in operation: Kansas, New Hampshire, Vermont, North Dakota, South Dakota, Oklahoma

*Branches reported were established prior to prohibitory legislation.

NOTE: Of the 2,362 branches located in head-office cities, 650 were operated by national banks, 1,155 by state bank members, and 557 by nonmember banks. Of the 1,078 branches located outside head-office cities, 343 were operated by national banks, 143 by state bank members, and 592 by nonmember banks.

September 16, 1929

To: Governor Young
From: Mr. Goldenweiser

SUBJECT: Effects of security purchases.

I transmit herewith a memorandum prepared by Mr. Riefler, in which he presents an analysis of the effects of large-scale security purchases by the reserve banks on the credit situation. It must be borne in mind that at no time was the situation entirely dominated by the system's open-market operations. There were always other factors either reinforcing or counteracting the effects of the purchases of securities. In the three periods described, security purchases have in each case been accompanied or followed by a decrease in money rates, a rise of security prices, and an expansion of bank credit. These developments, however, were much more accentuated in 1924 than in either 1922 or 1927. I believe that the principal reason for that is that member bank indebtedness was much larger in 1922 and in 1927 than in 1924, when discounts for the system were down to \$200,000,000 and when New York City banks were entirely out of debt. It is when money placed in the market by the reserve banks through purchases is not used to pay up indebtedness but is incorporated in member bank reserve balances that purchases have the greatest effect. At the present time, with discounts around \$1,000,000,000, security purchases, in order to have an important immediate influence on money rates, would have to be on an extremely large scale. On the other hand, as an indication of a reversal of Federal reserve policy of restraint the purchases might and probably would give a strong stimulus to speculation. It might also be noted that large-scale open-market operations on earlier occasions were always undertaken at a time when business was slackening or going through a pronounced recession, while at the present time business continues to be in record volume.

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Preliminary Memorandum for the Open Market Investment Committee
September 24, 1929.

At a meeting of the Governors of all Federal reserve banks at Washington, D. C., on August 7 and 8, the following resolution was adopted:

"It is the judgment of the Governors that the demand for increased credit incident to the autumn requirements of crop moving and business should be met, so far as possible, by an increase of the bill portfolio of such banks as care to participate in bill purchases.

"The Governors are also of the opinion that this procedure can best and most safely be undertaken, and with least risk of abuse in the use of Federal Reserve credit, under the protection of an effective discount rate in the New York district.

"They are further led to this conclusion by the expressed belief that an increase in the discount rates of the Federal Reserve Bank of New York would necessitate increases in few, if any, of the other Federal reserve banks during the period of seasonal business demand; and the desire of the directors and officers of all other Reserve banks to avoid increases, if possible. It is, therefore, recommended that the Reserve Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate."

This resolution was approved by the Federal Reserve Board and on August 8 the Federal Reserve Bank of New York raised its discount rate from five to six per cent and reduced its buying rate for bills from $5 \frac{1}{4}$ to $5 \frac{1}{8}$ per cent.

In the six weeks which have elapsed since the adoption of the program, seasonal demands for Federal reserve credit have been entirely met by increases in holdings of bankers acceptances by the Federal reserve banks. In fact, from the statement of August 7 to that of September 18, the total amount of Federal reserve credit outstanding has increased \$57,000,000, the amount of bankers acceptances held has increased \$162,000,000, discounts of member banks have decreased \$130,000,000, and holdings of government securities have increased \$20,000,000, due to an increase in holdings of securities under sales contract. The statement for September 18 shows total bills discounted of \$934,000,000, equivalent to 68.5% of total bills and securities, compared with \$1,064,000,000 on August 7, equal to 81% of total bills and securities.

The accompanying diagram shows that the increase in the total of Federal reserve credit since the last week of July, when the seasonal expansion normally begins, has been almost in accordance with the normally to be expected increase on the basis of previous experience.

A second diagram shows the changes in System holdings of bankers acceptances for the past three years, and shows that during August System holdings increased more rapidly than last year, but since then have about kept pace with the figures for the past two years. During current week, however, there appears to have been a noticeable decline in the rate of increase in bill holdings.

It is still early to pass judgment fully on the effects of the policies adopted. The immediate psychological effect of the rate change passed quickly. Since then there has been some evidence that the economic consequences of these policies may be of considerably greater importance.

Effects on Money Rates. The following table compares open market money rates on September 23 with corresponding rates in the first week of August and indicates that except for a slightly firmer tendency in commercial paper and in time money there has been no appreciable change in interest rates.

Money Rates at New York

	First Week August 1929	Sept. 20, 1929
Stock Exchange call loans	8 - 12	8
Stock Exchange 90 day loans	8 3/4 - 9	9
Prime commercial paper	6	6 1/4
Bills - 90 day unindorsed	5 1/8	5 1/8
Customers' rates on commercial loans	*6.00	6.07
Treasury certificates and notes		
Maturing December 15	4.79	4.54
Maturing March 15	4.56	4.51
Fed. Res. Bk. of New York rediscount rate	5	6
Fed. Res. Bk. of New York buying rate for 90 day bills	5 1/4	5 1/8

*Average rate of leading banks at middle of August; July rate 5.80

An analysis of the rates actually charged by commercial banks to their commercial customers in the second district indicates practically no change in the rates charged by banks outside of New York City which are generally uniform at 6 per cent. In the cities 6% is the commonest rate. A slight movement upward is shown in the fact that fewer loans are made at 5 1/2 and 5 3/4 per cent, and possibly a few more are made at rates above 6 per cent. Thus the average of rates is fractionally higher on that account, continuing an upward tendency which has been reflected in an increase month by month from 5.50 per cent in February to 6.07 in September, as indicated by reports of ten New York City banks.

Effect on Member Bank Position. Since the rate increase there has been little net change in the total loans and investments of reporting member banks, in spite of an increase of \$230,000,000 in commercial loans. This increase has been about offset by a decline of \$140,000,000 in collateral loans and \$110,000,000 in investments. Brokers loans have continued to expand and are now \$549,000,000 higher than they were early in August when the discount rate was increased. But this increase has been largely in loans for account of others and in fact of a decline in the total loans on collateral by reporting member banks.

In a number of ways the statistics appear to reveal an attitude on the part of member banks generally. The following points are interesting.

1. Bank loans on collateral have declined during a period when brokers loans were rising steadily.
2. Funds made available to member banks by Federal reserve acceptance purchases in excess of seasonal needs were used entirely to reduce indebtedness at the Reserve banks. There was no increase in bank credit.
3. Decreases in rediscounts have not yet been reflected in any easing in money rates, although, as illustrated by the attached chart, we might expect that a continued reduction in total volume of discounts will ultimately tend to decrease interest rates.

All these appear to show an unwillingness of the banks to continue in debt and a vigorous and general attempt to liquidate this debt.

Effect on Movement of Funds. Following the increase of discount rate at New York a considerable flow of funds from other districts was a possible danger which might have forced other Reserve banks to protect their reserves. In the week immediately following the rate change there was some movement to New York, but this was of short duration and was followed by a loss of funds following much the usual seasonal course.

This result is probably ascribable to the fact that the discount rate was already so far below market rates that the increase had little effect on market rates.

On the other hand funds made available by the purchase of acceptances have largely gone to liquidate discounts at the New York Reserve Bank and discounts at other Reserve banks have followed much the usual seasonal course. The rate change has apparently had little effect on the movement of funds between the United States and Europe. Confidential reports to the New York bank indicate a slight increase in foreign balances between the end of July and the end of August, but this increase cannot be attributed to higher rates in this market, for it took altogether the form of an increase in holdings of bankers acceptances and Treasury certificates the yields on which have not increased. There was, moreover, a decrease of \$24,000,000 in the amount of foreign funds employed on time or call in this market, the first decrease that has occurred in this account for some time. It is perhaps significant that it accompanied a level of call money rates slightly lower than had prevailed for some months previous.

The European Situation. The flow of gold from Europe has continued at about the same rate as before the policies of August 8 were adopted. Since that time the Bank of England has lost an additional \$22,000,000 (mostly to France and Germany) of gold and its reserves have been reduced from £141,400,000 to £136,900,000. While there have been no market changes in European money

rates, the indications are that the pressure upon Europe due to high money rates, is becoming constantly more intense and is tending to retard industrial and business development. August figures show an unseasonal decline in United States exports, though a single month's figures are not sufficient to indicate a trend. There is evidence of a banking up of wheat in shipping centers which is probably attributable in part at least to a restraint on the part of foreign buyers.

The Domestic Business Situation. Business is still operating at a high level, above any of the computed "normal" lines based on previous years experience and allowing for growth. In recent weeks, however, there has been a declining tendency in a number of basic industries. Building activity has been reduced still further; automobile production has been receding, and steel production has reflected these tendencies. These recessions have not, however, progressed far enough to warrant definite conclusions as to the trend.

Agricultural Conditions. The size of the year's crops is expected to be generally smaller than a year ago. With higher prices the total return to the farmer may be not short of a year ago, but certain sections of the country have suffered severely through the drought. The continued pressure on the credit situation has also been reflected by increasing reports from some localities of difficulties of agriculture in securing an adequate supply of credit.

The Committee has reviewed a preliminary memorandum and current credit conditions. During the past eighteen months interest rates in this country have gradually risen and money, especially for new undertakings, has become more difficult to obtain. While business continues at a high level, there are some indications of a possible impending recession.

Rates in many foreign centers have risen even more markedly and the loss of reserves of central banks threaten further increases in rates and probable curtailment of Europe's capacity to buy this country's products.

In accordance with the System policy adopted on August 8th seasonal requirements for Federal Reserve credit have been met by bill purchases, and in fact such purchases have been sufficient to reduce rediscounts to some extent.

For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit, the Committee favors a further increase of the open market holdings of the Federal reserve banks. It favors an increase of these holdings by the continued purchase of bills if they can be obtained in sufficient amounts to accomplish this purpose. If bills cannot be obtained in sufficient amounts without interfering with the present desirable distribution, it favors the purchase of Government certificates of the short maturities.

The Committee therefore recommends that it be authorized to purchase not to exceed \$25,000,000 a week of such certificates, for account of such banks as care to participate, with the understanding that such purchases be made only under the conditions above stated, and with the further understanding that there be careful current review of the consequences of such purchases, in order that there may be another meeting with the Board at any time that that may seem advisable either to the Board or to the Committee. In any event, the Committee feels that there should be another such meeting not later than November 1.

B33

September 25, 1929.

Dear Governor Harrison:

The Federal Reserve Board has reviewed the report and recommendation of the Open Market Investment Committee as of September 24, 1929.

The Board approves of your program to continue the purchasing of bills, and if necessary supplement the program by purchasing short-time Government securities for the purposes mentioned in your recommendation, to-wit:- "For the purpose of avoiding any increase and, if possible, facilitating some further reduction in the total volume of member bank discounts during the fall season, if this can be done without stimulating unnecessary or abnormal expansion of member bank credit." The Board, to this end, grants the authorization requested to purchase short-time Government securities at not to exceed twenty-five million a week.

In authorizing such purchases, the Board is approving mainly for seasonal reasons and such approval should not be interpreted as a reversal of former policies.

The Board welcomes and adopts the suggestion contained in the recommendation of the Committee that there be careful current review of the consequences of such purchases, and you will be advised promptly by the Board if at any time it believes that purchases should be discontinued or the procedure changed.

It is also agreeable to the Board that the Committee meet with it again at some date, later to be determined, but not later than November 1st.

Very truly yours,

R. A. Young,
Governor.

Mr. George L. Harrison, Chairman,
Open Market Investment Committee,
Federal Reserve Bank,
New York, N. Y.

Office Correspondence

FEDERAL RESERVE
BOARD

See No

Date September 23, 1929To Mr. Hamlin

Subject: _____

From Mr. Goldenweiser

B. 57

2-6495
GPO

I transmit herewith a table giving the items you requested
for certain periods mentioned in my memorandum to Governor Young.

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35-7

RESERVE BANK CREDIT - FACTORS IN CHANGES

(Monthly averages. In millions of dollars)

	Jan. 1922	June 1922	Change	Nov. 1923	Nov. 1924	Change	May 1927	Dec. 1927	Change	Jan. 1922	June 1928	Change
Reserve bank credit:												
Discounts	962	437	- 525	799	228	- 571	473	529	+ 56	962	1,019	+ 57
Acceptances	98	136	+ 38	265	268	+ 3	233	378	+ 145	98	244	+ 146
U. S. securities	238	591	+ 353	83	588	+ 505	291	606	+ 315	238	232	- 6
Other Federal Reserve Credit	28	28	0	57	51	- 6	44	56	+ 12	28	37	+ 9
Total	1,326	1,192	- 134	1,204	1,135	- 69	1,041	1,569	+ 528	1,326	1,532	+ 206
Treasury currency	1,551	1,600	+ 49	1,757	1,771	+ 14	1,768	1,796	+ 28	1,551	1,791	+ 240
Gold stock	3,672	3,776	+ 104	4,182	4,517	+ 335	4,651	4,416	- 235	3,672	4,119	+ 447
Money in circulation	4,527	4,429	- 98	4,953	4,970	+ 17	4,860	5,048	+ 188	4,527	4,736	+ 209
Member bank reserve balances	1,707	1,820	+ 113	1,875	2,164	+ 289	2,262	2,399	+ 137	1,707	2,355	+ 648
Nonmember clearing balances	29	34	+ 5	31	30	- 1	39	27	- 12	29	28	- 1
Unexpended capital funds	286	285	- 1	284	259	- 25	299	306	+ 7	286	322	+ 36

September 14, 1929

To: Mr. Goldenweiser

From: Mr. Riefler

SUBJECT: Security purchases.

There have been three periods since 1920 in the history of the reserve system when it has embarked upon a program of security purchases amounting to \$100,000,000 or more, namely, from January to June, 1922, from November, 1923 to November, 1924, and from May to December, 1927. The increase in security holdings in these three periods were \$353,000,000, \$505,000,000, and \$315,000,000, respectively. All three periods were accompanied by developments which subsequently induced the reserve system to dispose of a large part or all of the securities which had previously been purchased. In all three periods, also, other influences were at work which either accentuated or offset the effect in part of these purchases. In the following analysis of these periods the net effect of changes in these other factors (gold stock, Treasury currency, changes in reserve bank acceptances, float, etc., money in circulation, nonmember clearing balances and unexpended capital) is measured.

January - June, 1922

From January to June, 1922 the reserve banks purchased United States securities to the amount of \$353,000,000. At the same time since gold imports were arriving in volume and currency was returning from circulation, the effect of other factors was to accentuate these purchases by \$285,000,000. Total accessions to the market consequently amounted to \$638,000,000. Of this amount \$525,000,000 was absorbed by liquidation of discounts at the reserve banks and \$113,000,000 went into increased reserve balances of member banks. The liquidation of discounts reduced member bank indebtedness from \$962,000,000 in January to \$437,000,000 in June.

Changes in money rates, etc., which accompanied this movement are shown on the following table. In the case of exports and imports, the table shows the change between the average monthly exports or imports during the period and the corresponding period of the preceding year. In the case of common stock prices, the table shows, in parenthesis, the percentage increase during the period as well as the number of points changed.

TABLE I.

January, 1922-June, 1922

	January 1922	June 1922	Change
	Per cent		
Money rates:			
Call loans, renewal	4.52	3.72	- .80
Time loans	4 $\frac{3}{4}$ -5	4 $\frac{1}{4}$	- $\frac{1}{2}$ - $\frac{3}{4}$
Commercial paper	4 $\frac{3}{4}$	4 $\frac{1}{4}$	- $\frac{1}{2}$
Customers (weighted average)	6.02	5.46	- .56
Bond prices (S.S. Co. 60 bonds)	89.3	92.4	+ 3.1
Stock prices (S.S. Co. 410 stocks)	58.7	68.0	+ 9.3 (+16%) ^{1/}
Total loans and investments of all member banks ^{2/}	\$23,482	\$24,182	+ \$700
International trade:			
Change as compared with same months in preceding year in:			
Exports (monthly average)			- \$119 ^{3/}
Imports (monthly average)			+ 17

^{1/} Percentage change

^{2/} Measured to the nearest call in millions of dollars

^{3/} In millions

As the table shows, money rates declined and bond prices rose in response to these accessions of funds to the market. Stock prices also advanced by 16 per cent and member bank loans and investments increased by \$700,000,000. The response of foreign trade was less consistent, exports during this period averaging \$119,000,000 less per month than in the corresponding ^{period} month of 1921 and imports averaging \$17,000,000 more. Both of these reflected business more strongly than credit developments - exports having been exceptionally large in the first half of 1921 and imports small.

1924

From November, 1923 to November, 1924 the reserve banks purchased \$505,000,000 of United States securities, which together with \$355,000,000 from various other sources (chiefly gold) placed \$860,000,000 at the disposal of the money markets in all. Of this amount \$571,000,000 was absorbed by a decrease in discounts and \$289,000,000 was added to the reserve balances of member banks. In this case discounts for member banks decreased from \$799,000,000 in November, 1923 to \$228,000,000 in November, 1924. (Accompanying changes in credit conditions are shown in Table II.)

TABLE II

November, 1923 - November, 1924

	November 1923	November 1924	Change
Money rates:			
Call loans renewal	4.80	2.42	- 2.38
Time loans	5-5 1/8	3 1/4-3 1/2	- 1 3/4-1 5/8
Commercial paper	5	3 1/4-3 1/2	- 1 1/2-1 3/4
Customers (weighted average)	5.60	4.78	- .82
Bond prices (60 bonds S.S. Co.)	91.4	94.8	+ 3.4
Stock prices (410 stocks S.S. Co.)	66.6	77.6	<u>1/+11.0(+16%)</u>
Total loans and investments of all member banks <u>2/</u>	\$26,487	\$28,746	+\$2,259
International trade:			
(as compared with preceding year)			
Exports (monthly average)			3/+ 41
Imports (monthly average)			3/- 19
<u>1/</u> Percentage change			
<u>2/</u> Measured to the nearest call in millions of dollars			
<u>3/</u> In millions			

In this case, also, money rates fell rapidly, bond prices rose, stock prices advanced and member bank credit underwent great expansion. The expansion of exports was partly attributable to foreign loans but also reflected a large American crop at a time when European crops were small, while the decrease in imports reflected business recession in this country.

May, 1927 - December, 1927

In June, 1927 the Federal reserve system again embarked on a policy of purchasing United States securities and by December had increased their holdings by \$315,000,000. In this case, however, gold exports were large with the result that all counter factors together offset these purchases to the extent of \$²³⁴224,000,000. Net accessions to the market from security purchases, therefore, amounted to \$⁸¹91,000,000. In addition the market increased its borrowing by means of member bank discounts to the extent of \$⁵⁶46,000,000 from \$473,000,000 to \$529,000,000, and funds from these two sources permitted member banks to expand their reserve balances by \$137,000-000. The accompanying credit developments are shown on Table III.

TABLE III

May, 1927 - December, 1927

	May, 1927	December 1927	Change
Money rates:			
Call loans, renewal	4.26%	4.38%	+ ¹² .13
Time loans	4 3/8	4-4 1/4	-3/8 to 1/8
Commercial paper	4-4 1/4	4	- 0 to 1/4
Customers (weighted average)	5.02	4.91	- .11
Bond prices (60 bonds S.S. Co.)	99.1	100.0	+ .9
Stock prices (410 stocks S.S. Co.)	114.2	133.1	<u>1/</u> + 18.9 (+17%)
Total loans and investments of all member banks <u>2/</u>	\$32,756	\$34,247	+ \$1,491
International trade:			
(As compared with preceding year)			
Exports (monthly average)			<u>3/-</u> ⁶ 5
Imports (monthly average)			<u>3/-</u> 3

1/ Percentage change

2/ Measured to the nearest call in millions of dollars

3/ In millions

In this case money rates and bond prices showed relatively little change. Credit again expanded rapidly, however, and stock prices again advanced by about 17 per cent. Changes in imports and exports, as compared with the preceding year were both negligible.

Period from January, 1922 to June, 1928 as a whole

Certain relevant comparisons for the period as a whole are shown in Table IV. As the effect of an easing money policy on such things as stock prices, bond prices, credit expansion and foreign trade do not end automatically when the reserve banks cease purchasing securities, this table summarizes also developments during the six months following each of the above periods, namely, from June to December 1922, from November 1924 to May 1925, and from December 1927 to June 1928. The period covered therefore is the 78 months between January 1922 and June 1928. Of these 78 months, 26 were included in the three periods of large scale purchases of securities by the reserve banks, and 18 were included in the 6 months following each of these periods.

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TABLE IV

	January 1922	<i>June</i> January 1928	Net Changes			
			Total	During 3 periods covering open-market operations (26 mo.)	During 3 following periods of 6 months each (18 mo.)	During other 34 mo.
Member bank reserve bal. <u>1/</u>	\$ 1,707	\$ 2,355	+ 648	+ 539	- 56	+ 165
Member bank credit: <u>1/</u> Total loans and invest.	23,482	35,061	+11,579	+4,450	+2,883	+4,246
Average monthly increase			+ 148	+ 171	+ 160	+ 125
Bond prices (S. S. Co.)	89.3	98.5	+ 9.2	+ 7.4	+ .7	+ 1.1
Stock prices: (S. S. Co.) Monthly average increase	58.7	145.3	+ 86.6 + 1.1	+ 1.5	+ 1.3 ^{1.2}	+ .7
Foreign trade: <u>1/</u> Average monthly Exports Imports			\$379 326	\$371 298	\$382 313 <i>325</i>	\$383 354 <i>348</i>
<u>1/</u> Millions of dollars						

The summaries on this table are rather interesting. Of the total net increase of \$648,000,000 in member bank reserve balances during the 78 months, \$539,000,000 occurred while the reserve banks were purchasing United States securities, and of the total increase of 9.2 points in bond prices, 7.4 points occurred at the same time. The average monthly increase in total loans and investments of all member banks was \$148,000,000. During the three periods in which the reserve banks were purchasing United States securities heavily, however, it was \$171,000,000, during the three periods of 6 months each following these purchases it was \$160,000,000, while during the remainder of the 78 months it was \$125,000,000. Similarly, the average monthly increase in stock prices for the period as a whole was 1.1 points, but during periods of security purchases it was 1.5 points, during periods following

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such purchases ^{1.2}~~1.3~~ points, while during the remaining months it was only .7 points.

Exports appear to have averaged about the same volume in all three periods, while imports were lighter when securities were being purchases and heavier when they were not. This does not mean that security purchased on the part of the reserve banks led to decreased imports but merely that these purchases took place during periods of sluggish business activity when American industry had less need for foreign raw materials.

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October 8, 1929.

TO The Federal Reserve Board
FROM Mr. Wyatt, General Counsel

SUBJECT: Ownership of Bank Stocks
by Holding Companies.

There is attached hereto for the Board's information a copy of an Act recently enacted in the State of Wisconsin regulating the ownership of stocks in banks and trust companies by holding companies. The provisions of this statute may be summarized briefly as follows:

- (1) No corporation organized under the laws of Wisconsin is permitted to hold more than 10% of the stock of any bank or trust company, unless 75% of the stockholders of both corporations vote in favor thereof at a meeting especially called for that purpose.
- (2) No State bank or trust company may vote to authorize a foreign corporation to purchase stock in such State bank or trust company, unless such foreign corporation shall have qualified to do business in Wisconsin.
- (3) Whenever the ownership or control of a majority of the stock of any State or National bank doing business in Wisconsin is held by any foreign corporation which has not qualified to do business in the State, such bank shall be disqualified to act as a depository for any public funds of the State or any subdivision thereof, or as a depository for reserve funds of State banks until such foreign corporation shall have qualified to do business in the State.
- (4) Any domestic corporation or any foreign corporation qualified to do business in Wisconsin which owns or controls a majority of the stock of any bank or trust company, shall be deemed to be engaged in the business of banking and shall be subject to the supervision of the State Banking Department.
- (5) Such corporations are required to file reports of condition with the Commissioner of Banking and are subject to examination by him.
- (6) Whenever, in the opinion of the Commissioner of Banking, the condition or management of such holding company endangers the safety of such bank or trust company, the Commissioner may order the holding company to remedy such condition within ninety days; and, upon its failure to do so, the Commissioner shall have power to direct the operation of such banks or trust companies until his orders are complied with and may withhold all

dividends from such holding companies in the meantime.

(7) Domestic corporations and foreign corporations authorized to do business in the State which own or control the stock of a State bank or trust company shall be held liable for any assessment made against the stockholders of such bank or trust company to the par value of the stock so owned or controlled; and such holding corporations are required to deposit with the State Treasurer securities equal to fifty per cent of the par value of the stocks of State banks or trust companies owned or controlled by such holding companies, except that the aggregate amount of such securities shall not exceed the largest amount required to be deposited by Wisconsin trust companies.

(8) If the stockholders' liability of any such holding company is not fully paid, the stockholders of such holding company are liable for an assessment sufficient to cover the deficit.

(9) All of these provisions apply not only to corporations, but also to associations, investment trusts, or other organized forms of trusts; but they are not to be construed to prohibit any trust company or State or National bank exercising trust powers from carrying out the provisions of any personal trusts within certain prescribed limitations.

Respectfully,

Walter Wyatt,
General Counsel.

Copy of Act
attached.

WW:vdb

(DEPARTMENT OF STATE
Published
Aug. 30, 1929
Wisconsin)

(No. 460, S.)

CHAPTER 445, LAWS OF 1929.

A N A C T

To amend subsection (9) of section 182.01 and to create subsection (6) of section 14.44 and section 221.56 of the statutes, relating to banks and holding companies.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

SECTION 1. Subsection (9) of section 182.01 of the statutes is amended to read: (182.01 (9) Any corporation organized under chapter 180 of the statutes may subscribe for, take or hold stock in any other corporation except as herein provided. The consideration for such purchase may be paid in the stock or bonds, or both, of the purchasing company; but no corporation organized under chapter 180 of the statutes may subscribe for, take or hold more than ten per cent of the capital stock of any state bank or trust company, unless seventy-five per cent of the stock of both corporations shall vote in favor thereof at a meeting especially called for that purpose, but no state bank or trust company may vote to authorize a foreign corporation to purchase stock in such bank or trust company unless such foreign corporation shall have filed its articles of incorporation with the secretary of state and is authorized to do business in Wisconsin as provided in section 226.02 of the statutes.

SECTION 2. A new subsection is added to section 14.44 and a new section is added to the statutes to read: (14.44) (6) Whenever the ownership, control or power to vote a majority interest in the stock of any state or national bank doing business in Wisconsin shall be held or in any manner exercised by any foreign corporation, association or trust which shall not have filed its articles of incorporation and obtained authority to do business in this state as provided in section 226.02, such bank shall not be qualified to act as depository for any public funds of the state of Wisconsin or of any subdivision thereof, nor as a depository for reserve funds of state banks until the provisions of section 226.02 shall be complied with by such foreign corporation, association or trust.

221.56 (1) Any domestic corporation, investment trust, or other

form of trust which shall own, hold or in any manner control a majority of the stock in a state bank or trust company shall be deemed to be engaged in the business of banking and shall be subject to the supervision of the state banking department. It shall file reports of its financial condition when called for by the commissioner of banking, and the commissioner may order an examination of its condition and solvency whenever in his opinion such examination is required, and the cost of such examination shall be paid by such corporation or association. Whenever in the opinion of the commissioner of banking the condition of such corporation or association shall be such as to endanger the safety of the deposits in any bank or trust company which is owned or in any manner controlled by such corporation, or the operation of such corporation, association or trust shall be carried on in such manner as to endanger the safety of such bank or trust company or its depositors, the commissioner may order such corporation or trust to remedy such condition or policy within ninety days and if such order be not complied with, the commissioner shall have power to fully direct the operation of such banks or trust companies until such order be complied with, and may withhold all dividends from such corporation or trust during the period in which the commissioner may exercise such authority.

(2) The provisions of subsection (1) shall apply to any foreign corporation, association, investment trust, or other form of trust which shall be authorized to do business in Wisconsin.

(3) Every domestic corporation and every foreign corporation authorized to do business in this state which shall purchase, own or in any manner control the voting of any stock in a state bank or trust company shall be liable to the creditors of such bank or trust company for any assessment made against the stockholders of such bank or trust company to the par value of the stock so purchased, owned or controlled in the same manner as is provided for individual stockholders of such banking corporation under the provisions of section 221.42. Any such domestic or foreign corporation shall deposit with the state treasurer securities such as are required to be deposited by trust company banks by section 223.03 equal in amount to fifty per cent of the par value of the stocks of state banks or trust companies which shall be held, owned or controlled by such domestic or foreign corporation, but not exceeding in the aggregate the largest amount required to be deposited by a Wisconsin trust company. In case the double liability of any such corporation against which an assessment may be made as provided herein shall not be fully paid by such corporation, then the stockholders of such corporation shall be liable for an assessment sufficient to cover the full amount of the assessment against such corporation.

(4) All of the foregoing provisions of this section relating to corporations shall apply equally to associations, investment

trusts, or other forms of organized trusts, whether so specifically stated or not, but nothing contained in this section shall be construed to prohibit any trust company bank, or state or national bank, authorized to administer or execute trusts, to accept and carry out the provisions of any personal trust, or any trust created by will where the owner of bank stock shall create a trust for his own benefit during his lifetime, or shall provide by will a trust in bank stock for the benefit of his heirs, and trusts so created shall not be deemed to come within the provisions of this section.

SECTION 3. It is the intent of the legislature that the provisions of this act are separable and the holding of any provision hereof unconstitutional shall not affect the remainder thereof.

SECTION 4. This act shall take effect upon passage and publication.

Senate: Ayes 28; Noes 1.

Assembly: Ayes 82; Noes 0.

PRESIDENT OF THE SENATE.

SPEAKER OF THE ASSEMBLY.

This act originated in the Senate.

CHIEF CLERK.

Approved _____, 1929.

GOVERNOR.

CONFIDENTIAL

Not for publication

EARNINGS AND EXPENSES OF FEDERAL RESERVE BANKS, SEPTEMBER 1929

St. 6351

Federal Reserve Bank	Month of					September		1929		Jan. - September 1929		
	Earnings from -					Current expenses		Current net earnings		Current net earnings	Dividends accrued	Available for reserves surplus and franchise tax*
	Dis-counted bills	Pur-chased bills	U. S. securi-ties	Other sources	Total	Exclusive of cost of F.R. currency	Total	Amount	Ratio to paid-in capital			
									Per cent			
Boston	\$295,347	\$89,946	\$17,254	\$5,398	\$407,945	\$155,317	\$176,636	\$231,309	26.2	\$2,543,944	\$467,896	\$2,037,980
New York	1,149,755	406,685	182,313	61,681	1,800,434	519,558	555,120	1,245,314	23.6	8,793,226	2,569,621	6,163,241
Philadelphia	375,545	51,476	59,277	3,184	489,482	155,679	166,630	322,852	23.8	2,775,536	690,531	2,021,228
Cleveland	332,109	55,293	86,787	15,453	489,642	206,444	218,848	270,794	21.3	2,726,047	675,752	1,998,247
Richmond	248,795	26,538	4,565	5,147	285,045	120,034	127,677	157,368	31.1	1,192,376	277,902	850,051
Atlanta	288,323	53,151	10,595	9,642	361,711	113,286	141,160	220,551	49.4	1,961,720	240,982	1,681,997
Chicago	422,685	98,307	88,467	39,132	648,587	297,872	324,726	323,861	19.8	4,031,875	870,940	3,067,805
St. Louis	298,614	277	1,751	1,275	301,923	105,387	109,930	191,993	44.7	1,430,222	240,533	876,976
Minneapolis	141,242	17,283	30,036	15,154	203,715	73,980	77,872	125,843	50.1	560,199	137,921	403,912
Kansas City	161,266	29,309	6,258	22,614	219,447	142,762	146,570	72,877	20.8	643,002	192,386	508,572
Dallas	172,481	34,369	26,536	3,685	237,071	109,081	109,666	127,405	34.5	763,586	199,493	534,523
San Francisco	314,044	101,335	39,874	4,354	459,607	188,950	190,301	269,306	28.8	1,851,842	499,130	1,309,117
TOTAL												
Sept. 1929	4,200,206	963,969	553,715	186,719	5,904,609	2,188,350	2,345,136	3,559,473	26.0			
Aug. 1929	4,573,150	542,575	524,277	190,324	5,830,326	2,245,005	2,427,474	3,402,852	24.2			
Sept. 1928	4,285,918	824,211	755,649	122,939	5,988,717	2,158,095	2,182,231	3,806,486	32.0			
Jan.-Sept. 1929	36,629,628	8,049,395	5,222,208	1,842,407	51,743,638	19,916,911	22,470,063	29,273,575	24.9	29,273,575	7,063,087	21,453,649
1928	26,355,172	7,975,918	8,335,996	1,265,707	43,932,793	19,508,099	20,184,796	23,747,997	22.8	23,747,997	6,260,946	15,900,500

FEDERAL RESERVE BOARD

DIVISION OF BANK OPERATIONS

OCTOBER 9, 1929.

*After adjustment for current profit and loss entries, purchases of furniture and equipment, etc.

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C.

Office Correspondence

FEDERAL RESERVE
BOARDDate September 16, 1929. P 135

To Mr. Goldenweiser

Subject: The present gold situation.

From Mr. Gardner

2-8495

The average monthly production of gold in the world is about \$34,000,000. Of this amount some \$21,000,000 monthly has been going into monetary use in 1929. The growth of monetary gold is of course more fluctuating than the production of the mines; but except for the technical and temporary disappearance of gold from the records while in transit from one central bank to another, the advance of total monetary gold holdings month by month has been persistent, ranging between fifteen to thirty million dollars. The probable growth for the year is \$250,000,000. This will come almost wholly from mined gold as the large special sources which have characterized previous years are nearly exhausted. The figure indicates the competitive power of central banks as against Indian and industrial demand. A world in which central banks in gold standard countries are striving to build up their gold resources is not one favorable to the development of large non-monetary takings. This is important to remember because it is so often assumed that the banks play a merely passive rôle receiving only what remains after Indian and industrial demands have been met.

Of the new gold produced by the mines almost half or \$14,000,000 on a monthly average comes to London from Africa for distribution. Except for the small portion sold to the trade this gold must either be shipped out again or accumulate in the Bank of England. It is a normal thing therefore for London to be a shipper of gold to foreign central banks to the extent of \$10,000,000 or more monthly.

For the four months following the increase of its discount rate to 5 1/2 per cent on February 7 the Bank of England was able to prevent this

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normal outflow and to divert the African gold to its own vaults. In addition it drew one substantial shipment from the Netherlands Bank amounting to \$14,000,000 and smaller shipments from Australia and Argentina. Altogether it increased its holdings during the four months to June 12 by \$70,000,000. The Bank was further aided in maintaining its reserve position by the fact that the volume of currency in circulation during the first half of the year was well under the level of a year ago. Partly this was due to the return of some \$25,000,000 of notes from Ireland where a new Irish currency has been placed in circulation. But to a larger extent it appears to be traceable to the industrial situation in England which was very bad toward the end of 1928. Following the improvement of this situation the level of currency in circulation has drawn much closer to that of a year ago and it now appears probable that not even the seasonal drop of money in circulation in the autumn will bring much relief this year. Gold required $\frac{1}{2}$, which on February 27 after the increase of discount rate was \$200,000,000 less than at the beginning of the year, was on September 11 \$80,000,000 higher than in February. Movements of this sort are of a magnitude quite comparable with the international movements of gold, large as the latter have been. It is therefore significant that the Bank can hardly expect much relief in the immediate future by reason of a reduction in the liabilities against which reserves are held.

Meanwhile since June 12 the Bank has been losing gold heavily. The \$799,000,000 held on that date have shrunk to holdings of \$669,000,000 on $\frac{1}{2}$. In calculating required gold, I have taken the gold legally required against notes in circulation (i. e. outside the Bank of England) and added to it an amount equivalent to 40% of deposits. As no reserve is legally required against deposits, the selection of 40% is somewhat arbitrary; it is close, however, to the practical norm which has become almost a tradition in England. In the present case it makes very little difference what ratio against deposits is chosen, as three fourths of the fluctuation in gold required has occurred in the gold legally required against notes in circulation.

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September 11; and the theoretical excess gold of \$94,000,000 (allowing a 40 per cent reserve against deposits) has become a theoretical gold deficiency of \$70,000,000 2/. This deficiency began toward the end of July at which time the mystic figure of £150,000,000 for total holdings was also violated. Each succeeding weekly report since that time has shown smaller gold holdings; and the autumn season is imminent; yet Bank rate remains unchanged. That the Bank of England is trying a wholly new experiment (perhaps in collaboration with a Labor Government) is only too evident. The experiment being new there is no basis for determining when it will end. The Bank has never before had to consider how much gold it really needed to insure the exchange stability of the British pound; and we can only guess what operating limits it has in mind now that tradition has been broken. To be sure for seven weeks now the reserve ratio has been below 30 per cent and it might be anticipated that the usual autumn drain would be the signal to increase the rate. But instead the Bank may let gold go and ask for permission to increase its fiduciary issue, thereby preserving the ratio from shrinkage. Or a credit may be arranged. In any case the bulk of the burden of autumn financing will be borne by the New York market supported by the Federal Reserve Banks, a fact tending to throw the heaviest pressure on London forward into 1930. The Bank may hold on as it did last fall waiting developments of the year to come. To pull through the rest of this year would be something of a tour de force by traditional standards; but quite possible if a radically new approach is being tried.

The gold which England has lost in the last three months has gone largely to France (\$87,000,000) Germany (\$76,000,000) and the United States 2/ The greater change in "excess" gold than in total gold is, of course, due to the growth of liabilities.

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(\$23,000,000). During this period gold holdings of the Bank of France increased by \$96,000,000. But previous to June the Bank of France had been steadily building up its gold, its holdings having increased \$181,000,000 during the first five months of the year making a total of \$277,000,000 for the year to date. This enormous acquisition is not to be explained on the grounds of increase of requirements. Requirements continue to increase in France to be sure; but their growth has rendered necessary not more than \$50,000,000 of additional reserves. It would be easy to say that the Bank of France is merely building up a hoard as in the pre-war days. Undoubtedly the Bank is not averse to accumulating gold; but I suspect that the present process differs somewhat from blind hoarding. The Bank has felt (not without some justification) that its foreign exchange holdings were disproportionate. These holdings have continued disproportionate in the face of a discount policy which has maintained Paris as one of the two easiest short-term money markets in the world. The Bank has therefore been anxious to expedite the slow shrinkage of its foreign portfolio by converting it into gold. During the first half of the year it was on the lookout for favorable opportunities to purchase gold. Such opportunities presented themselves at the time of our post-Christmas return of money from circulation and again at the period of heavy German gold shipments to this country. Following the second wave of gold purchases, however, foreign exchange of the Bank was left at an amount which the Bank appears willing to regard as reasonable -- at least for the time being. The amount is roughly \$1,000,000,000. For the last four months

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it has hardly varied. Apparently the heavy imports from England during this period represented wholly the initiative of private banks seeking the profits to be made on the shipment. The Bank of France stood aside. It was responsible only in the sense that it was unwilling to vary its holdings of foreign exchange in order to prevent the movement of gold.

It is, of course, amazing that in the face of the low rates prevailing for money in Paris there should be a net inflow of funds on international balance 3/. This net inward flow has, to be sure, developed only at the height of the tourist season. Furthermore the slowness of the previous outflow might be at least partially explained by the fact that the French short-term open money market is still undeveloped and not really available for financing the world's international trade; that French bankers, irrespective of interest differentials, set very cautious limits to the volume of funds they are willing to hold abroad; and finally that the long-term security markets have not eased comparably with the short-term markets and in any case are severely restricted by various prohibitions and by heavy taxation. But the flow of funds to and from France still remains an enigma concerning which prediction is almost impossible. With the passing of the tourist season, however, I should expect a considerable breathing spell before further French takings of any magnitude develop. I do not in any case look for an outflow of gold from France even though the excess is now in the neighborhood of \$350,000,000. The Bank may refrain from touching its billion dollars of foreign exchange either for the

3/ The increased reparations payments must be set off against the greater excess of merchandise imports in 1929.

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purpose of preventing or inducing a gold inflow; but it certainly will not hesitate to use it to prevent an outflow of the gold it already has acquired. Holding gold subjects the Bank to relatively little criticism. It is the acquisition which excites hostility.

The gold taken by Germany has, as in the case of France, resulted from a net inflow of funds combined with an unwillingness on the part of the central bank to build up its holdings of foreign exchange. Schacht has operated more in the foreign exchange market than appears on the surface. His holdings of unreported devisen are known to have been large and to have gone through large fluctuations in 1929. But by far the greatest changes have occurred in the gold holdings of the Reichsbank in accordance with Schacht's theory that under the gold standard adjustments should be made in gold.

Germany began the year with \$650,000,000 about \$175,000,000 of which was in excess of legal requirements 4/. Following the reduction of the Reichsbank rate there was a gradual melting down of this holding. Then during the Paris conference a sudden spread of alarm led to tremendous demands for foreign funds. In five weeks time (March 31 - May 7) the Reichsbank lost more than \$200,000,000 of gold, the excess disappearing entirely. In the face of this movement the Reichsbank raised its discount rate to 7 1/2 per cent (April 25) and adopted the severe and effective measure of rationing its loans. Almost as quickly as it had arisen the storm blew over, confidence returned, and Germany, left with a 7 1/2 per cent discount rate, began presently to draw gold. From

4/ In calculating required gold I have included Rentenbank notes with Reichsbank notes as liabilities against which gold must be held. The Reichsbank has publicly accepted responsibility for these Rentenbank notes, which are in process of retirement. Strictly, however, reserves are required by law only against Reichsbank notes, on which basis the excess gold held at the beginning of 1929 was \$225,000,000.

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June 23 to September 15 the Reichsbank acquired \$100,000,000. At the same time foreign exchange was appreciably replenished, but in general Schacht's policy has been to let gold move in response to discount policies. The only difficulty in this case is that the April episode forced the Reichsbank onto a higher rate level and threw such a scare into the bank that it has not since dared to relax -- although the emergency measure of rationing loans has been discontinued. At present the Reichsbank has a surplus of gold of more than \$100,000,000. Yet such are the uncertainties of the immediate future that it is unlikely that any rate reduction will occur before the new year; and even then Schacht may be deterred by memories of what happened after a similarly justified reduction in January 1929. It would not be surprising if Germany with reduced payments under the Young Plan, a continually growing volume of exports, and a tight money market continued to attract gold even in the face of the difficulties of borrowing at long-term abroad.

Meanwhile I am inclined to think that the time is rapidly approaching when a prolific source of gold to other countries during 1929 ~~months~~ will cease to flow. The Bank of the Nation in Argentina has just about exhausted its surplus gold if one regards cash holdings of 20 per cent against deposits as a minimum. The Bank has come a long way since last September when its holdings were near their peak. Since that date about \$115,000,000 ^{5/} of gold has been lost and the Bank which had risen to a dominant reserve position is now back with the crowd. If the drain continues I should anticipate some sort

^{5/} This figure was given as \$125,000,000 in the original copy of this memo owing to an error in published figures, since corrected.

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of measures of restriction to prevent it -- whether in the form of higher interest rates, or rationing of loans, or something more drastic I do not know. But once alarmed I should expect the Argentinians to take severe measures to save their gold. It may well be that such measures will not prove necessary.

This discussion of the four foreign countries which have accounted for most of the gold movements of 1929 (i. e. England, France, Germany, and Argentina) makes it appear that, despite the heavy reduction of our foreign long-term lending and the attraction of our short-term markets and of the stock market itself, our further acquisitions of gold are not likely to be dramatic. France will give us none; the Argentine supply is becoming exhausted; Germany is for the time being committed to exceptionally high rates backed by an improving export trade; and England is in an anomalous position with nothing to spare by traditional standards and yet perhaps most likely of all to send us gold in the fall. I expect that our gradual and steady accumulation of gold will continue -- if only from new gold produced by the mines. We have in any case experienced only one period of rapid acquisition in 1929. While Germany was losing \$200,000,000 of gold we acquired \$100,000,000. Over the whole year to date we have accumulated about \$250,000,000 or at an average rate of roughly \$30,000,000 a month. This is considerably more than the monthly increase of total monetary gold in the world; and in view of the situation in the other important countries I do not look for it to continue. But while our present credit policy lasts our share of the new monetary gold made available should be large.

Note: This memo was written before the increase of Bank of England rate to 6 1/2 % on Sept. 26 -- an increase which has, of course, increased the power of London to retain the South African gold.